



nelson mandela bay
M U N I C I P A L I T Y
PORT ELIZABETH | UITENHAGE | DESPATCH

ANNUAL REPORT 2006/07

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| <b>CHAPTER</b> | <b>EXECUTIVE MAYOR'S FOREWORD</b> |
|                |                                   |

Significant progress was made during the 2006/07 financial year in intensifying the Municipality's struggle against poverty and inequalities thereby enhancing the quality of life of the residents of Nelson Mandela Bay. Whilst the political leadership acknowledges this progress, it is also very conscious that some sections of our communities are still living in poverty. Together with our communities, we remain steadfast in our resolve to address these challenges.

This annual report presents an honest expression of the Municipality's performance during the year in question, as well as the challenges that confronted us and the interventions we undertook.

To entrench and deepen democracy, the Municipality introduced the Ward-based Planning approach. As this was a new initiative, lessons were learnt that will be used to improve and enhance this approach, thereby ensuring that our people are governing with us. This will be complemented by other Community Outreach Programmes, during which our Councillors will interact with communities.

As the political collective of the Nelson Mandela Bay Metropolitan Municipality, we will continue to honour the pledge that we made and carry out the mandate given to us by the communities, namely to accelerate service delivery and development, fight poverty and unemployment as well as create a safe and healthy environment for our communities, as enshrined in our Constitution as well as the Freedom Charter.

The Municipality has initiated programmes to ensure that the following challenges are addressed vigorously:

- Development of sustainable integrated human settlement.
- Relocation of people living in flood plain areas.

- Crime prevention.
- Infrastructure development, especially in the previously disadvantaged areas.

**COUNCILLOR NONDUMISO MAPHAZI  
EXECUTIVE MAYOR**

**'INTENSIFYING THE STRUGGLE AGAINST POVERTY'**

|                |                                          |
|----------------|------------------------------------------|
| <b>CHAPTER</b> | <b>MUNICIPAL MANAGER'S<br/>STATEMENT</b> |
|                |                                          |

An efficient and effective administration provides the core support mechanism to political leadership in eliminating poverty and inequalities. Over the review period, the Municipality successfully developed and implemented a number of initiatives to stabilise its administration. These include the following:

- Rationalisation of top management structures
- Appointment of key strategic personnel
- Finalisation of disciplinary steps against suspended senior managers
- Development and implementation of a Human Resources Turnaround Strategy
- Development of a Workplace Skills Development Plan
- Review of departmental structures
- Controlled filling of vacancies

In addition to the above successes, the following areas presented some challenges and will receive continuing attention during the 2007/08 financial year:

- Finalisation of the TASK Job Evaluation Process
- Co-ordination and integration within the administration for better service delivery
- Addressing of skills shortages in critical and technical areas
- Extending the performance management system to lower levels of the administration
- Improved and timeous planning to enhance the implementation of projects and financial expenditure

**J G RICHARDS (ADV)  
MUNICIPAL MANAGER**

**CHAPTER****1****(A) INTRODUCTION AND OVERVIEW**

The Nelson Mandela Bay Municipality is situated on the coastline of the Eastern Cape Province of South Africa, known for its scenic beauty and abundant wildlife.

**POPULATION**

Nelson Mandela Bay (NMB) has a population of 1,1 million and covers an area of 1,950 km<sup>2</sup>. The city has a relatively youthful population, with 37% residents between the ages of 15 and 34 years, indicating that education and job creation require serious attention. Altogether 26,2% of the population is below the age of 15 years, while 5,3% is 65 years and above. The male:female ratio of the population are 48%:52%.

**HOUSEHOLD DATA**

Total number of households = 265 109 (Census 2001)

Altogether 38% of households are indigent.

Number of informal households = 30 000 (56 settlements)

**SOCIO-ECONOMIC TRENDS**

Nelson Mandela Bay is the largest contributor to the economy of the Eastern Cape Province. It contributes 44% of the provincial GGP. The unemployment rate within the Bay area is approximately 35%. The economic growth rate for 2006/07 was 4,7%.

With regard to education, 29% of the population over 15 years has a matriculation or higher qualification, while 4.2% of adults has degrees. Altogether 8,5% of residents older than 15 years are functionally illiterate, highlighting the need for skills development.

## **COMMUNITY FACILITIES**

Number of community halls = 44

Number of households that lie within 2km of a community hall = 173 766

Number of sports facilities:

- Sports stadia = 11
- Sports complexes = 16
- Formal sports facilities = 141
- Informal sports facilities = 18

Number of households that lie within 2km of a sports facility = 186 835

## **EXECUTIVE MAYORAL COMMITTEE SYSTEM**

The Municipality has an Executive Mayoral Committee system, which consists of the Executive Mayor, Deputy Executive Mayor and nine Mayoral Committee members, who serve as Chairpersons of Standing Committees.

In addition, the Municipality has 120 Councillors (60 Proportional Representation (PR) Councillors, and 60 Ward Councillors). During 2006/07, ten Council meetings, twenty Mayoral Committee meetings and 61 Standing Committee meetings were held.

## **ADMINISTRATION**

The administration is headed by the Municipal Manager and the following Directorates:

- Budget and Treasury Directorate
- Corporate Services Directorate
- Economic Development and Recreational Services Directorate
- Electricity and Energy Directorate
- Environment and Health Directorate

- Housing and Land Directorate
- Infrastructure and Engineering Directorate
- Office of the Chief Operating Officer
- Safety and Security Directorate

The Annual Report sets out the priorities of the Nelson Mandela Bay Municipality in 2006/07, its key achievements, challenges and service delivery improvements, as well as its targets for the next financial year.



## MUNICIPAL VISION

"A globally competitive city that works together with the people".

This shared vision provides the foundation for the achievement of the Municipality's priorities.

## MISSION STATEMENT OF NELSON MANDELA BAY MUNICIPALITY

*"Nelson Mandela Bay Municipality is a global city that is governed by an inclusive and innovative Municipality, focused on sustainable service delivery, socio-economic and infrastructure development and local regional integration."*

## NELSON MANDELA BAY MUNICIPALITY'S CORE VALUES

The Municipality is committed to deliver services within the framework of *Batho Pele* principles, as outlined below:

- **Courtesy and 'People First'**

Residents should be treated with courtesy and consideration at all times.

- **Consultation**

Residents should be consulted about service levels and quality, when possible.

- **Service excellence**

Residents must be made aware of what to expect in terms of level and quality of service.

- **Access**

Residents should have equal access to the services to which they are entitled.

- **Information**

Residents must receive full and accurate information about their services.

- **Openness and transparency**

Residents should be informed about government departments, operations, budgets and management structures.

- **Redress**

Residents are entitled to an apology, explanation and remedial action if the promised standard of service is not delivered.

- **Value for money**

Public services should be provided economically and efficiently.

An overview of basic service delivery and financial performance highlights of the institution during the 2006/07 financial year is presented below:

### 1.1 Water and sanitation

Altogether 100% of all formal households now have access to a basic level of water supply. Informal areas are being provided with standpipes, except where people are occupying private land or uninhabitable electrical servitudes. Progress with regard to the provision of water and sanitation services is reflected below:

| Type of service                  | 2005/06 | 2006/07 |
|----------------------------------|---------|---------|
| Water (formal and informal)      | 92%     | 93%     |
| Sanitation (formal and informal) | 90%     | 91%     |

Altogether 99% of households in formal areas have access to sanitation. If informal areas are included, 91% have access to a basic level of sanitation services.

### 1.2 Electricity

Altogether 98% of households now have access to electricity. A total of 5 364 households were electrified during the 2006/07 financial year. Progress with regard to the provision of electricity is reflected below:

|                                            | 2005/06 | 2006/07 |
|--------------------------------------------|---------|---------|
| % of households with access to electricity | 95%     | 98%     |

### 1.3 Refuse removal

Altogether 99,8% of households in Nelson Mandela Bay now have a basic level of solid waste service. Altogether 5 972 new households were provided with access to a basic level of solid waste removal. Progress with regard to refuse removal is reflected below:

|                                                       | 2005/06 | 2006/07 |
|-------------------------------------------------------|---------|---------|
| % of households with access to refuse removal service | 99,4%   | 99,8%   |

### 1.4 Housing and land delivery

Altogether 3 506 low-cost housing units were built during the 2006/07 financial year. This number has decreased from 5 440 in the previous year reflecting the organisational challenges in the Housing Directorate. In response, a housing delivery turnaround strategy has been developed and is currently being implemented. As the current housing backlog is approximately 80 000 units, housing delivery remains one of the major challenges facing the Municipality. Progress with regard to housing is reflected below:

|                                     | 2005/06 | 2006/07 |
|-------------------------------------|---------|---------|
| Number of new low-cost houses built | 5 440   | 3 506   |

### 1.5 Free basic services

The Municipality has an Assistance-to-the-Poor Policy in place. Altogether 100% of all qualifying households are receiving free basic services. Information with regard to the provision of free basic services is reflected below:

| <b>Number of households receiving free basic services (6 kl of water and 50 kWh electricity)</b> | <b>Water</b> | <b>Electricity</b> |
|--------------------------------------------------------------------------------------------------|--------------|--------------------|
| 2005/06                                                                                          | 93 593       | 90 423             |
| 2006/07                                                                                          | 89 525       | 94 196             |

### 1.6 Financial sustainability

The Municipality's financial position is sound, as reflected by the following credit ratings:

| <b>RATING HISTORY</b> | <b>2005/06</b> | <b>2006/07</b> |
|-----------------------|----------------|----------------|
| Long-term             | zaA            | zaA            |
| Short-term            | zaA1           | zaA1           |

Ratings indicate a strong capacity on the part of the NMBM to repay both long- and short-term liabilities.

The Municipality also experienced an improvement in revenue collection, as reflected by the table below:

| <b>FINANCIAL YEAR</b> | <b>TARGET</b> | <b>ACTUAL</b> |
|-----------------------|---------------|---------------|
| 2005/06               | 96%           | 96%           |
| 2006/07               | 97%           | 97%           |

The Municipality's capital expenditure over the review period, as well as personnel costs, is reflected below:

- Capital expenditure of 87,33%
- Low personnel costs of 29,40%

## **KEY AWARDS WON FOR 2006/07 FINANCIAL YEAR**

The Municipality and its residents are proud to have been honoured with the following important awards for excellent performance:

- The national Vuna Award; for the key performance areas of service delivery and local economic development.
- The World Leadership Award; in the category of Health for the Emmanuel Haven Hydroponics Project as well as for the Best African City of the Year.
- 2006/07 Star Award, for contributing to poverty alleviation (second place).

More comprehensive performance information is provided in Chapter 2 under "How did we perform?" This will cover the following key performance areas:

- Municipal transformation and organisational development
- Basic service delivery and infrastructure development
- Local economic development
- Municipal financial viability and management
- Good governance and public participation

## CHAPTER **2**

### HOW DID WE PERFORM?

#### KPA 2.1 SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT

| KEY PERFORMANCE ELEMENT (KPE)                                               | KEY PERFORMANCE INDICATOR (KPI)                                                       | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>The provision of basic and other services:</b><br><br><b>2.1.1 Water</b> | % of households with access to basic level of water (formal and informal areas)       | 92%      | 97%            | 93%            | The programme follows the housing delivery process and the number of houses built did not reach the target. Also refer to 2.1.2 under sanitation.                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                             | % water unaccounted for                                                               | 26%      | 25%            | 35%            | The calculation for unaccounted for water is in the process of being revised nationally. Unaccounted for water is not limited to water losses, but also includes unmetered water, unmetered standpipes and consumers not on the billing system. With regard to metering, the Municipality is in the process of installing water meters in unmetered areas. The Property Valuation is also assisting in identifying consumers not on the billing system. The Municipality is also in the process of completing its asset register and management systems. |
|                                                                             | Number of new water meters installed in unmetered areas                               |          | 5000           | 7487           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                             | % adherence to international standards for the quality of water supplied to consumers |          | 100%           | 100%           | The Municipality has a Scientific Division to test and monitor the quality of the water supply.                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| KEY PERFORMANCE ELEMENT (KPE)    | KEY PERFORMANCE INDICATOR (KPI)                                                                                                    | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>2.1.2 Sanitation</b>          | % of households with access to basic level of sanitation (formal and informal)                                                     | 90%      | 95%            | 91%            | The programme follows the housing delivery process and the number of houses built did not reach the target.                       |
|                                  | Elimination of the bucket system                                                                                                   |          | 11250          | 3506           | DWAF decided not to allocate funds for the elimination of the bucket system in the informal areas leaving the programme unfunded. |
|                                  | Elimination of shared toilets                                                                                                      |          | 1500           | 1657           |                                                                                                                                   |
|                                  | % of households with access to a basic level of waste removal service (formal urban areas)                                         |          | 100%           | 100%           | All formal urban areas receive a kerbside refuse service.                                                                         |
| <b>2.1.3 Solid Waste Removal</b> | % of households with access to a basic level of waste removal service (formal peri-urban areas)                                    |          | 100%           | 100%           | All formal peri-urban areas receive a kerbside waste service.                                                                     |
|                                  | % of households with access to a basic level of waste removal service (informal urban and peri-urban areas minimum basic services) | 99,4%    | 100%           | 99.80%         |                                                                                                                                   |
|                                  | Number of new households provided with a basic level of solid waste removal                                                        | 4 214    | 5000           | 5 972          |                                                                                                                                   |
|                                  | Distribution of 15 000 wheely bins to low-income households                                                                        |          | 15000          | 12899          | The households that represent the difference between 12899 and 15000 are being provided with a black plastic bag service.         |



| KEY PERFORMANCE ELEMENT (KPE) | KEY PERFORMANCE INDICATOR (KPI)                                                   | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                    |
|-------------------------------|-----------------------------------------------------------------------------------|----------|----------------|----------------|---------------------------------------------------------------------------------------|
| <b>2.1.4 Electricity</b>      | % of households (dwellings) on official surveyed sites with access to electricity | 95%      | 98%            | 98%            |                                                                                       |
|                               | Number of RDP houses electrified per annum                                        |          | 5000           | 1654           | The supply of electrical services to RDP houses follows the housing delivery process. |
|                               | Number of other houses electrified per annum                                      |          | 3000           | 3710           |                                                                                       |
|                               | Total number of streetlights installed per annum                                  |          | 230            | 724            |                                                                                       |
|                               | Total number of high-mast lights installed per annum                              |          | 16             | 15             |                                                                                       |
|                               | % electricity losses due to technical reasons                                     | 5,7%     | 6%             | 6%             |                                                                                       |
|                               | % electricity losses due to theft                                                 | 1,1%     | 0.50%          | 0.50%          |                                                                                       |
|                               | Number of domestic hot-water control demand side management (DSM) installed       |          | 22000          | 22000          |                                                                                       |
|                               | % of qualifying households receiving ATP                                          | 100%     | 100%           | 100%           |                                                                                       |
|                               | <b>2.1.5 Free Basic Services</b>                                                  |          |                |                |                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE)             | KEY PERFORMANCE INDICATOR (KPI)                                                                         | BASELINE                                                 | TARGET 2006/07                   | ACTUAL 2006/07          | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.1.6 Health (primary health care)</b> | Number of new clinics constructed                                                                       | Site identified, construction to commence during 2006/07 | 1 Walmer Community Health Center | Building work commenced | Building has commenced on the New Walmer Gqebera Clinic. The soil turning ceremony took place on 25 June 2007. The project was delayed due to the need to source additional funding after increase in the building cost. Estimated date of completion: Nov. 2007. |
|                                           | Number of clinics upgraded                                                                              | 2                                                        | 3                                | 0                       | Applications for MIG funding have been submitted to upgrade three clinics (ART sites). Awaiting approval of funding. Funding approval has delayed the completion of this project.                                                                                 |
|                                           | Number of clinics converted to allow disability access                                                  |                                                          | 5                                | 5                       | Disability access for the five clinics earmarked for the 2006/07 year was completed by September 2006. Application for funding for the next five clinics have been made and the roll-out will continue in the 2007/08 financial year.                             |
|                                           | Per quarter average community health nurse to patient ratio per day                                     |                                                          | 1.50                             | 1.53                    | Nursing staff shortages are contributing to the NMBM nurse:patient ratio being higher than the national norm of 1:35.                                                                                                                                             |
|                                           | % of clinics providing anti-natal services and integrated management care of childhood illnesses (IMCI) |                                                          | 78%                              | 78%                     |                                                                                                                                                                                                                                                                   |

| KEY PERFORMANCE ELEMENT (KPE)                        | KEY PERFORMANCE INDICATOR (KPI)                                                                        | BASELINE | TARGET 2006/07    | ACTUAL 2006/07           | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------|-------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1.7 Health (HIV and Aids and TB)                   | Number of municipal ARV treatment sites accredited and operational                                     |          | 5                 | 2                        | Two NMBM sites received accreditation during a visit early in the financial year. The National HIV and Aids Directorate has indicated that the other three sites will not be re-evaluated for accreditation at this stage. However, all five NMBM sites continue to provide ART services. Two ECDOH PHC ART sites has been earmarked for accreditation. |
|                                                      | New smear positive successful treatment rate (%)                                                       |          | 70%               | 71%                      | NMBM clinics reached a 71% new smear positive successful treatment rate. A revised TB Crisis Plan has been submitted to the EC Dept. of Health and National Dept. of Health - awaiting approval.                                                                                                                                                        |
|                                                      | Existence of a revised municipal-wide strategy and programme for HIV and Aids prevention and treatment |          | Strategy in place | Stakeholder consultation | The target date was adjusted to October 2007 in consultation with the Eastern Cape Aids Council, for launching on World Aids Day, 1 December 2007.                                                                                                                                                                                                      |
| <b>2.1.8 Integrated human settlement development</b> |                                                                                                        |          |                   |                          |                                                                                                                                                                                                                                                                                                                                                         |
| 2.1.8.1 Housing provision                            | Number of low cost houses built                                                                        | 5 440    | 5000              | 3506                     | The Municipality experienced a number of challenges with regard to housing delivery. A comprehensive turn-around programme has been developed and is currently being implemented.                                                                                                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE)                             | KEY PERFORMANCE INDICATOR (KPI)                                                          | BASELINE | TARGET 2006/07 | ACTUAL 2006/07                            | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|----------|----------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1.8.1 Housing Provision (continued)                     | Number of housing opportunities provided through the transfer of municipal housing stock |          | 1500           | 624                                       | To-date approximately 61 000 housing stock have been transferred. Some difficulties are being experienced with transferring the balance due to legalities (e.g. divorcing couples, etc). A Task Team has been established to attend to this in order for the balance to be transferred.                                                                                                                      |
| 2.1.8.2 Social housing and inner-city housing development | Number of houses provided through social housing                                         |          | 150 Units      | 0<br>(identification of land in progress) | Three areas have been identified and subsequently approved for social housing. The delivery of social housing is the responsibility of accredited NGOs, while the Municipality is responsible for providing land. In addition to the aforementioned three areas, the Municipality is currently taking measures to ensure that seven additional pieces of land will be accredited in the restructuring zones. |
| 2.1.9 Roads, stormwater and transportation                | Tarring of roads in old residential areas (km)                                           | 8 km     | 14 km          | 9.50 km                                   | Several contracts in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals.                                                                                                                                                                                                                                                                                        |
|                                                           | Resurfacing of roads (km)                                                                | 110 km   | 180 km         | 177 km                                    |                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                           | Rehabilitation or reconstruction of roads (km)                                           |          | 5 km           | 1.50 km                                   | Several contracts are in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals.                                                                                                                                                                                                                                                                                    |

| KEY PERFORMANCE ELEMENT (KPE)                                 | KEY PERFORMANCE INDICATOR (KPI)                                                                                             | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                    |
|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>2.1.9 Roads, stormwater and transportation (continued)</b> | Re-gravelling of roads (km)                                                                                                 |          | 50 km          | 252 km         | Big variance as a result of severe damage to infrastructure during two big flood events in 2006/07.                   |
|                                                               | Augmentation of stormwater pipes (km)                                                                                       |          | 6              | 1.70           | Several contracts in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals. |
|                                                               | % coverage of community according to public transport norm of 500 m walking distance to a terminus or public transport stop | 100%     | 100%           | 100%           |                                                                                                                       |
|                                                               | Length of sidewalks and cycle paths constructed                                                                             |          | 30             | 42             |                                                                                                                       |
| <b>2.1.10 Sports, recreation and culture</b>                  | Provision of traffic calming measures, including speed humps                                                                |          | 40             | 133            |                                                                                                                       |
|                                                               | Number of mobile library visits in outlying areas                                                                           |          | 292            | 292            |                                                                                                                       |
|                                                               | Number of libraries with disability access and facilities                                                                   |          | 21             | 21             |                                                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE) | KEY PERFORMANCE INDICATOR (KPI)                                                        | BASELINE | TARGET 2006/07     | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS    |
|-------------------------------|----------------------------------------------------------------------------------------|----------|--------------------|----------------|---------------------------------------|
| 2.1.11 Customer care          | Response time to respond to queries in line with Batho Pele principles                 |          | 14 days            | 14 days        |                                       |
|                               | Response time to restore services due to electricity power failure (minor disruptions) |          | 2 hrs              | 3 hrs          |                                       |
|                               | Response time to restore services due to electricity power failure (major disruptions) | 12 hrs   | 12 hrs             | 12 hrs         |                                       |
|                               | Response time for new electricity connections (days)                                   | 15 days  | 15 days            | 21 days        |                                       |
|                               | Response time to replace credit meters with prepaid meters (weeks)                     | 4 weeks  | 3 weeks            | 3 weeks        |                                       |
|                               | Response time to restore water and sanitation (minor)                                  |          | 90% within 24 hrs  | 90%            |                                       |
|                               | Response time to restore water and sanitation (major)                                  |          | 100% within 48 hrs | 100%           |                                       |
|                               | Response time for approval of zoning plans (new residential)                           |          | 3 months           | 6 months       | Delays are due to long-term disputes. |

| KEY PERFORMANCE ELEMENT (KPE)           | KEY PERFORMANCE INDICATOR (KPI)                                             | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS    |
|-----------------------------------------|-----------------------------------------------------------------------------|----------|----------------|----------------|---------------------------------------|
| <b>2.1.11 Customer Care (continued)</b> | Response time for approval of zoning plans (residential additions)          |          | 3 months       | 6 months       | Delays are due to long-term disputes. |
|                                         | Response time for approval of zoning plans (commercial)                     |          | 6 months       | 6 months       |                                       |
|                                         | Response time for approval of zoning plans (industrial)                     |          | 6 months       | 6 months       |                                       |
|                                         | Response time for approval of building plans (new residential – days)       |          | 7 days         | 7 days         |                                       |
|                                         | Response time for approval of building plans (residential additions – days) |          | 7 days         | 7 days         |                                       |
|                                         | Response time for approval of building plans (commercial – days)            |          | 7 days         | 7 days         |                                       |
|                                         | Response time for approval of building plans (industrial – days)            |          | 7 days         | 7 days         |                                       |
|                                         | Creditors days                                                              | 57 days  | 45 days        | 55 days        |                                       |
|                                         |                                                                             |          |                |                |                                       |

**Other service delivery and infrastructure development performance related information is outlined below:**

**(a) Electricity**

The Municipality has initiated an innovative process to provide renewable energy. This includes the use of wind turbines, solar heating and electricity generation from solid waste. Some energy efficient measures, such as demand side management on municipal buildings, infrastructure and street lights, were also initiated. Phase 1 of the hot-water load control project, during which 22 000 units were installed, has been completed. The second phase will see the installation of an additional 60 000 units. The Municipality is progressing well with the implementation of the EDIR programme, in line with the national targets.

**(b) Solid waste removal and other environmental services**

Progress has been made with regard to solid waste removal. In addition to the cleansing function performed by the Municipality itself, co-operatives are also used for refuse collection, litter picking and street sweeping. In this regard, five co-operatives are currently operational. This is also part of the Municipality's initiatives to create jobs and reduce poverty.

The Municipality's initiatives with regard to solid waste removal have been rewarded with a number of cleanest city national awards by the Department of Environmental Affairs and Tourism. The Municipality was also placed second for the 2006/07 Star Awards by the National Selection Committee of the Impumelelo Innovations Award Trust, recognising the exceptional contribution to poverty reduction and community development in South Africa by community co-operatives rendering waste management services.

One of the challenges facing the Municipality is illegal dumping. To respond to this challenge, the Municipality introduced a ward-based cleaning and greening programme, which is being piloted in fifteen wards and has created 450 jobs thus far. The programme is set to be extended to other areas.



Other performance highlights with regard to environmental services include the upgrading of 32 public open spaces, the planting of 2 892 trees and the implementation of the beach development project.

**(c) Housing delivery**

To address housing challenges, the Municipality developed a turn-around strategy, which includes the appointment of an inter-Directorate task team to co-ordinate aspects of housing delivery. Other processes that have been initiated, include the rationalisation of the Housing Directorate, as well as the appointment of its Executive Director. A comprehensive audit on housing delivery and forensic investigations was initiated. Furthermore, the Municipality has adopted a co-operative government approach with regard to housing delivery with the National Department of Housing, as well as the Provincial Department of Housing, Local Government and Traditional Affairs.

Zanenvula is a key project, implemented jointly between the three spheres of government. Zanenvula forms part of the Breaking New Ground Project. The aim of Zanenvula is to deliver approximately 12 053 units by 2010. This project will be implemented in line with the Municipality's sustainable community planning concept. On 27 February 2007, the three spheres of government signed a co-operative agreement, in terms of which Thubelitsha will serve as the implementing agent.

Residents living in distressed areas, such as flood plains, are a concern. Following the disastrous August 2006 floods, 1 890 families have been relocated from flood plains in terms of Zanenvula Project, and the Municipality has intensified the relocation programme in all distressed areas of Nelson Mandela Bay.

To enhance the integration of communities, as well as to cater for the category that falls above the threshold of RDP houses, a social housing policy was developed.

**(d) Assistance-to-the-Poor initiatives**

In addition to the provision of basic services to indigent households, the Municipality introduced a programme to address high water leakages in these households. This project has also assisted in creating jobs in these poor communities. Currently, 51 community-based plumbers are implementing this programme. The programme is being extended throughout Nelson Mandela Bay. A new initiative by the Municipality is the insurance of low-cost houses against natural disasters.

**(e) Asset management systems**

To ensure the proper maintenance and management of assets, the Municipality has embarked on a programme to develop asset registers and management systems. This will enable the Municipality to enhance the management of its assets, properly plan, reduce service disruptions and determine future capacity requirements. The project will be completed during the 2007/08 financial year.

**(f) Sports and recreation**

The Municipality is on course to meet its host city deadlines for the 2010 FIFA Soccer World Cup. These include the following:

- Completion of the construction of the multi-purpose stadium by December 2008
- Hosting the Confederation Cup in 2009
- Developing and implementing legacy projects

In addition, a number of people benefited from municipal sports development programmes. These include the following:

- 75 (soccer coaching)
- 220 (rugby coaching)
- 35 (cricket coaching)

- 29 (swimming coaching)
- 25 (netball coaching)
- 40 (athletics coaching)
- Over 500 children from the previously disadvantaged areas benefited from the Learn-to-Swim Programme.

Among the numerous national and international sporting events that were hosted in Nelson Mandela Bay, are the following:

- Specsavers SA Ironman
- SAA Open Golf Championships
- Gervans NMB Sevens Rugby

These high-profile events, which attracted many thousands of national and international visitors, have placed Nelson Mandela Bay firmly on the world map.

**(g) Safety and security**

Crime prevention is one of the key municipal priorities. In this regard, Council approved a business plan for the establishment of a municipal police service. Altogether 16 CCTV cameras were installed in the CBD and beachfront areas.

An additional 25 CCTV cameras will be installed as part of Govan Mbeki Avenue upgrading. There has been a 17% reduction in case backlogs as a result of the introduction of municipal courts in the Port Elizabeth and Uitenhage areas. Altogether six disaster management satellite centres are operational; one is introduced annually to reach a target of ten. The response times of the emergency services are reflected below:

|                                    | <b>TARGET</b> | <b>ACTUAL</b> |
|------------------------------------|---------------|---------------|
| Average response time to fire      | 10 min.       | 9 min.        |
| Average response time to disaster  | 30 min.       | 30 min.       |
| Average response time to accidents | 10 min.       | 10 min.       |

**KPA 2.2 MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT**

| <b>KEY PERFORMANCE ELEMENT (KPE)</b>    | <b>KEY PERFORMANCE INDICATOR (KPI)</b>              | <b>BASELINE</b> | <b>TARGET 2006/07</b> | <b>ACTUAL 2006/07</b> | <b>EXPLANATION OF VARIANCE / COMMENTS</b>                                                                                                                                                                                                                         |
|-----------------------------------------|-----------------------------------------------------|-----------------|-----------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.2.1 Sound financial management</b> | Personnel costs to total operating income           | 31%             | 31%                   | 29.40%                |                                                                                                                                                                                                                                                                   |
|                                         | Revenue collection improved to and sustained at 97% | 96%             | 97%                   | 97%                   |                                                                                                                                                                                                                                                                   |
|                                         | % expenditure (capital total)                       | 87,33%          | 95%                   | 87.60%                | Refer to point (c) below Other municipal financial viability and management performance.                                                                                                                                                                          |
|                                         | % expenditure (MIG)                                 |                 | 95%                   | 92%                   |                                                                                                                                                                                                                                                                   |
|                                         | % expenditure (Restructuring Grant)                 | 48,5%           | 95%                   | 80.60%                | Refer to point (c) below Other municipal financial viability and management performance.                                                                                                                                                                          |
|                                         | Existence of a debt-to-income ratio of 25%          | 24,77%          | 25%                   | 4.5%                  | The reason for the drop in the debt-to-income ratio is the fact that in the past the Municipality included the Post-Retirement Funding figure (R299 million) in its debt this figure out and only includes external debt, hence the large reduction in the ratio. |

| KEY PERFORMANCE ELEMENT (KPE)    | KEY PERFORMANCE INDICATOR (KPI)                    | BASELINE  | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                    |
|----------------------------------|----------------------------------------------------|-----------|----------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.2.1 Sound financial management | Net debtors to annual operating income             | 18,3%     | 16%            | 12.4%          | The net debtors ratio focuses on the amount owed by net debtors as a percentage of the annual operating income. A lower percentage indicates the Municipality is recovering its debt. |
|                                  | Repairs and maintenance to annual operating income |           | 9%             | 7.20%          |                                                                                                                                                                                       |
|                                  | Cost coverage                                      | 11 months | 6 months       | 10 months      |                                                                                                                                                                                       |

**Other municipal financial viability and management performance related information is outlined below:**

**(a) Credit rating**

The Municipality's overall financial position is generally sound. This sound financial position is also evidenced by the favourable credit rating received of zaA for long-term and zaA1 for short-term, which indicates the strong capacity of the Municipality to repay both long-term and short-term liabilities.

**(b) Revenue enhancement**

The Municipality developed a Revenue Enhancement Master Plan, which is revised annually. The Plan provides an overall revenue enhancement and collection strategy over a three-year period. This has seen the continuous improvement in the revenue collection rate to 97%, which is in line with the target.

Furthermore, to achieve revenue enhancement, accurate and efficient billing as well as improved customer care, the Municipality has embarked on a process to develop a new billing system. This will be concluded by March 2008. The Municipality has also embarked on a General Property Valuation Process throughout Nelson Mandela Bay. This process will be concluded by June 2008 and take effect from 1 July 2008. New property rates will be levied, based on the new property valuations. The process of property valuation will also enable the Municipality to collect and capture consumer data that is currently not in the billing system, thereby further enhancing revenue collection and customer care.

**(c) Capital expenditure**

One of the major objectives of the Municipality is to improve on capital expenditure, which, at the end of the 2006/07 financial year, was 87,6% against a target of 95%. It must, however, be emphasised that an amount of R300 million more was spent during the 2006/07 financial year, than during the 2005/06 financial year. An intervention programme was developed to deal with capital expenditure, which is currently being implemented, focusing on the following:

- Proper forward planning to allow for timeous tendering and other processes.
- Establishment of a Budget Performance Monitoring Task Team.
- Inclusion of expenditure and financial related key performance indicators on the Municipal Manager and Executive Directors' performance agreements.
- Inclusion of a financial expenditure report as a standing item for the Management Team and Mayoral Committee meetings to enhance monitoring.
- Proper financial projections of month-by-month income and expenditure.

**KPA 3 : LOCAL ECONOMIC DEVELOPMENT**

**(a) Growth and Development Summit**

The Municipality hosted its landmark Growth and Development Summit on 29 March 2007 where, together with other social partners, pledges and commitments were made for the upliftment of the Nelson Mandela Bay area and beyond. The commitments made are currently being implemented. The Summit report also forms the basis of the current review of the Municipality's

Economic Growth and Development Strategy, as well as a long-term City-wide Development Strategy.

**(b) SMME and co-operative development**

Ten co-operatives and ten food gardens were established in line with the annual target, and are fully functional. Altogether 878 SMMEs were capacitated with business skills. Altogether 41% of local businesses were awarded contracts, well exceeding the target of 25%. Altogether 16,5% of tenders were awarded to women, against a target of 15%. The Municipality experienced challenges with regard to some categories, specifically the disabled and youth gaining access to municipal contracts. Various options are being pursued to improve on this.

**(c) Tourism**

The number of tourists visiting Nelson Mandela Bay continues to increase. This year, it increased by approximately 10%. To maximise the benefit derived from tourism, which is one of the key focus areas of the Municipality, a process has been put in place to review and rationalise the Nelson Mandela Bay Tourism Agency, thereby repositioning it to make a greater impact.

**(d) Coega IDZ and the Port of Ngqura**

The Coega IDZ and the Port of Ngqura are key anchor projects for Nelson Mandela Bay and the region as a whole. The Municipality is in partnership with the Coega Development Corporation and has concluded a comprehensive agreement providing, *inter alia*, for the provision of bulk infrastructure and services to the project. Intensive investment marketing by the Coega Development Corporation has already yielded substantial successes in investments, including anchor tenants in each zone.



## **KPA 4 : MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT**

### **(a) Streamlining the institution for better service delivery**

The Municipality embarked on an organisational review and rationalisation process to ensure the development of an efficient and effective administration that is responsive to the needs and challenges confronting it. The overall objectives of the review are to:

- Identify operational shortcomings in the administration, including the following:
  - Duplication of functions
  - Overlapping of functions
  - Inappropriate splitting of functions
  - Lack of operational integration
  - Misplaced functions
  - The need to establish fully functional service delivery centres to improve access to service delivery in areas such as Uitenhage and Despatch.
- Streamline the span of control reporting to the Municipal Manager to enhance integration, co-ordination, management and oversight.
- Identify clear designations and reporting lines.
- Propose a revised organisational structure.

The exercise has several workstreams, as outlined below:

- Workstream 1: High-level rationalization; for instance, rationalisation of business units and offices into directorates.
- Workstream 2: Rationalisation within directorates.
- Workstream 3: Identification and elimination of overlapping/duplicated functions.

- Workstream 4: Identification and rectification of misplaced functions.
- Workstream 5: Establishment of service delivery centres (especially in Uitenhage and Despatch).
- Workstream 6: Development and implementation of a redefined service delivery model.

It is envisaged that the implementation of the workstreams may occur simultaneously and/or in a phased manner.

**(b) Review of systems**

Organisational review also necessitates the review of administrative systems and procedures as an ongoing process. Recent initiatives include the following:

- Workflow efficiencies

This includes the automation of manual processes, decision-making processes (Mayoral resolutions), the Query Management System, the computerisation of leave applications, as well as the early application of the Supply Chain Management System. The objective is to expedite service delivery by improving organisational efficiency and effectiveness, increasing the use of information and communication technology, and streamlining decision-making processes.

- Electronic Document Management System

This system manages the organisation's Paper Trail, and will in the long run reduce printing costs.

- Digitalisation of committees, including Mayoral and Standing Committees
  
- E-government

The Municipality has also embarked on an e-government programme aimed at increasing the use of information and communication technology. The e-government project has four components, namely Government to Citizen; Government to Government; Government to Business; and internal efficiency and effectiveness. This project saw the computerisation of six of the 22 municipal libraries, as well as twelve clinics, as a pilot project. The e-government project will be completed in June 2008.

With regard to ICT, the different platforms which supported the three erstwhile administrative units of Port Elizabeth, Uitenhage and Despatch are now fully merged and operating as one, enhancing integration. A revised ICT Transformation Plan is currently under scrutiny and undergoing stakeholder input.

Other key institutional development issues that are receiving attention include the following:

- A comprehensive Scarce Skills Audit and Implementation Plan.
- A new remuneration framework.
- Cascading the Performance Management System.
- Improving internal controls.
- Reviving the cluster system, to improve integration.
- A Customer Satisfaction Survey.

The above will be given special focus during the 2007/08 financial year.

**KPA 5 : GOOD GOVERNANCE AND PUBLIC PARTICIPATION****(a) Internal controls**

Emanating from the adverse audit opinion received for the 2005/06 financial year, the Municipality developed and implemented a comprehensive action plan to deal with areas of audit qualification and the emphasis of matter. This has resulted in a substantially improved audit opinion from the Auditor-General. The Municipality managed to reduce the areas of qualification from 12 qualifications in 2005/06 to 1 qualification in 2006/07 with the remaining cause of qualification being eliminated with the completion of the General Valuation.

The qualification relating to the 2006/07 financial year relates to the valuation of assets. A process has already been adopted to address this issue within the 2007/08 financial year. Refer to comments on the Audit report.

The Municipality has a functional Audit Division and Audit Committee to enhance internal controls. Furthermore, risk management plans were developed and implemented, and anti-fraud and anti-corruption measures were introduced in line with the anti-fraud and anti-corruption strategies of the Municipality, which includes the Anti-fraud Hotline (0800 20 43 43).

**(b) Public participation**

As part of initiatives to involve all sectors of the community in planning and municipal governance, the Municipality introduced the concept of ward-based planning. Members from municipal wards received training to be in a position to identify their needs and plan accordingly for submission to the Municipality, thereby informing the people's Integrated Development Plan and the Budget.

The Municipality also has a functional Ward Committee System in place. Altogether 300 Ward Committee meetings were held during the financial year. To complement the Ward Committee System, the political leadership of the Municipality undertook 55 outreach programmes thereby interacting with approximately over 8 000 residents.

The Municipality is considering ways of enhancing the activities of special sectors. This will be done through the appointment of special sector co-ordinators and the development of comprehensive development programmes during the 2007/08 financial year.

**(c) International and intergovernmental relations**

The Municipality continues to derive positive spin-offs through its international partnerships, as well as relationships with our neighbouring municipalities. In addition to our current partnerships with Ningbo, China; Jacksonville, Florida, USA; and Göteborg, Sweden, an additional partnership was concluded with Annaba, Algeria. Further partnerships are being pursued with Beira, Mozambique and Wakhinan Nimzath, Senegal.

In order to exchange knowledge, ideas and experiences, the Municipality continues to enjoy close working relations with other municipalities in the country, including neighbouring municipalities. In this regard, agreements were concluded with Nxuba and Cacadu municipalities. With the support of the German Agency for Technical Co-operation (GTZ), a number of projects will be identified for implementation between Cacadu and the Nelson Mandela Bay Municipality during the 2007/08 financial year.

**MOTHERWELL URBAN RENEWAL PROGRAMME**

Motherwell is one of the Presidential urban renewal nodes in the country. It has enjoyed considerable success in implementing key community projects, and the lessons that have been learned are being replicated in the Helenvale Urban Renewal Programme. This will be expanded to other areas. The Motherwell Urban Renewal Programme is implemented with community participation, taking full advantage of the functional community forum meetings held annually, of which twelve were held during the 2006/07 financial year.

The Motherwell Urban Renewal Programme is not treated as standing alone, but is included in the Municipality's IDP to enhance co-ordination and integration by different directorates within the Municipality. The national and provincial spheres of government also play an important role in the Motherwell Urban Renewal Programme. Furthermore, the European Union has also supported the programme.

During 2006/07, the following projects were completed:

| <b>PROJECT</b>                                                             | <b>R million</b> |
|----------------------------------------------------------------------------|------------------|
| • Addo Road fencing (road safety), Phases 1 and 2                          | 3.5              |
| • Motherwell Cemetery roads paving, Phase 1                                | 1.75             |
| • Motherwell water meters project                                          | 7.1              |
| • Motherwell collector sewer                                               | 3.9              |
| • Motherwell main sewer augmentation (Tjoks)                               | 0.05             |
| • Motherwell Police Station                                                | 16.9             |
| • Bus embayments                                                           | 2.4              |
| • Motherwell NU 29 and 30 (main sewer)                                     | 5.7              |
| • Motherwell Branch Court                                                  | 25.1             |
| • Motherwell North pipeline                                                | 4.0              |
| • Motherwell NU1 Taxi Rank, Phase 1                                        | 2.9              |
| • Motherwell turning circles                                               | 1.9              |
| • Tjoksville roads and stormwater                                          | 16.5             |
| • Two car washes (NU 3 and NU9)                                            | 3.0              |
| • Video conferencing facility                                              | 0.08             |
| • Refurbishment of a computer laboratory at<br>Siyaphambili Primary School | 0.12             |

**Total value: R94 900 000**

**CHAPTER****3****HUMAN RESOURCES AND OTHER  
ORGANISATIONAL MANAGEMENT**

The Municipality has a total workforce of 7 032 employees, of whom 6 417 are permanent and 615 temporary staff members. The personnel cost constitutes 29,40% of its total Operating Budget.

During the 2006/07 financial year, 37 unemployed graduates, 26 bursary students and 21 experiential training students received training in various fields.

Skills development for both employees and residents of Nelson Mandela Bay is critical and in line with the IDP. Altogether 41 employees are participating in the water purification, reticulation and waste water treatment learnership. Furthermore, 22 employees are participating in the Pharmacist Assistants learnership. Altogether sixty unemployed residents are participating in the emerging contractor (Vukuphile) learnership. This approach maximises human development and capacitates people for both present and future employment.

A total of 2 575 employees received training in the 2006/07 financial year, at a cost of R1 726 627.41.

The following table provides a breakdown of training beneficiaries:

| <b>OCCUPATIONAL GROUP</b>                  | <b>NUMBER</b> |
|--------------------------------------------|---------------|
| Leadership and governance                  | 602           |
| Senior officials and managers              | 72            |
| Professionals                              | 345           |
| Technicians and associate professionals    | 413           |
| Clerks                                     | 462           |
| Service workers                            | 209           |
| Agricultural and fishery workers           | 42            |
| Craft and related trade workers            | 214           |
| Plant and machine operators and assemblers | 89            |
| Labourers and related workers              | 127           |
|                                            | <b>2 575</b>  |

The Municipality's Capacity Development and Skills Development Programmes are NQF aligned. Currently, 61% of all senior managers are from the designated groups.

The Municipality values stability in the workplace and, through the Labour Forum, all labour-related issues are ironed out between the employer components and the labour components represented by the trade unions IMATU and SAMWU.

**The following table presents information on the pension funds in existence in Nelson Mandela Bay:**

|           | Number | Council contribution % | Defined benefits | Defined contribution |
|-----------|--------|------------------------|------------------|----------------------|
| SALA      | 3 078  | 18.07                  | 1 249            | 1 829                |
| CJRF/CJPF | 2 463  | 18                     | 125              | The rest             |
| SAMWU     | 108    | 18                     |                  | All                  |

No future risk, post-retirement has been budgeted for.

|                      |             |                                       |
|----------------------|-------------|---------------------------------------|
| Post-retirement Fund | 51 494 410  | budgeted annually<br>future liability |
|                      | 625 731 000 |                                       |

**The following table illustrates information on the medical aid schemes in operation in the Municipality:**

|               |           |
|---------------|-----------|
| LAMAF         | 2 301 754 |
| BONITAS       | 2 242 897 |
| HOSMED        | 450 465   |
| MUNIMED       | 679 427   |
| SAMWUMED      | 129 152   |
| GLOBAL HEALTH | 487 114   |

The amounts reflect Council's monthly portion of contribution.

**The following table illustrates trends in total personnel expenditure:**

|       | Personnel expenditure | Operating income   | %   |
|-------|-----------------------|--------------------|-----|
| 06/07 | 1 071 989 048.00      | 3 646 221 252.00 * | 29% |
| 05/06 | 962 143 399.00        | 3 086 406 967.00   | 31% |
| 04/05 | 817,512,342.00        | 2,920,504,109.00   | 28% |
| 03/04 | 773 807 939.00        | 2 763,214,676.00   | 28% |
| 02/03 | 702,958,809.00        | 2,427,096,782.00   | 29% |

\* Excluding Capital Grants and contributions and Housing top structures



| <b>BASIC REMUNERATION AS AT 30 JUNE 2007</b>     |                      |                         |
|--------------------------------------------------|----------------------|-------------------------|
| Item description                                 | Estimate             | Actual                  |
| Annual bonus                                     | 46,535,300           | 46,165,906.18           |
| Basic remuneration                               | 551,006,040          | 549,383,061.94          |
| Remuneration adjustments                         | 12,150,830           | 75,516.99               |
| Temporary assistance                             | 36,095,900           | 41,708,639.84           |
| Outside waterworks – Allowance                   | 0                    | 41,528.40               |
| Ward staff assistance                            | 1,598,000            | 1,500,747.69            |
| Seasonal staff                                   | 1,869,730            | 1,906,372.84            |
| Bargaining Council levy                          | 211,660              | 213,591.66              |
| Labour dispute settlements                       | 0                    | 40,181.31               |
| Provision for vacancies                          | 20,215,370           | 0                       |
| Contractual staff appointments – Section 57      | 11,297,190           | 8,714,108.77            |
| Temporary assistance: Improve revenue collection | 250,000              | 350,024.26              |
| Manpower restructuring                           | 36,647,350           | 30,814,794.93           |
| Commutation of leave                             | 976,700              | 72,532.18               |
| Leave pay on retirement                          | 1,617,000            | 4,651,165.07            |
| Contractual staff appointments – Other           | 15,892,110           | 15,601,712.61           |
| Cost of living allowance – Pensioners            | 3,830                |                         |
| First-aid allowance                              | 53,460               | 19,036.71               |
| Group Life Insurance                             | 6,348,450            | 4,733,263.92            |
| Locomotion – Fixed                               | 33,872,070           | 34,205,523.86           |
| Medical aid contributions                        | 68,055,710           | 73,407,113.80           |
| Pension fund contributions                       | 88,030,970           | 91,518,239.23           |
| Shift allowance                                  | 2,065,080            | 14,537.63               |
| Standby allowance                                | 3,590,360            | 3,322,393.02            |
| UIF and Workmen's Compensation contributions     | 7,815,720            | 8,924,283.42            |
| Cashiers' allowances                             | 20,000               | 13,626.07               |
| Education fees                                   | 301,000              | 131,340.94              |
| Entertainment allowance                          | 1,410                | 1,400.04                |
| Pension and lump sum payments                    | 16,251,350           | 16,862,581.91           |
| Special transport allowance                      | 14,080               | 14,222.53               |
| Skills development levy                          | 7,934,480            | 7,319,875.83            |
| Uniforms and clothing                            | 5,609,900            | 4,472,493.85            |
| Allowance (excess hours)                         | 1,371,310            | 2,023,527.14            |
| Telephone allowance                              | 72,960               | 63,363.46               |
| Retrenchment costs                               | 1,047,580            | 1,047,574.00            |
| Interest on personnel loans                      | 42,120               | 74,865.30               |
| Entertainment allowance                          | 8,070                | 8,050.08                |
| Transport allowances                             | 298,700              | 191,230.21              |
| Risk allowance                                   | 216,860              | 202,725.85              |
| Shift amount allowance                           | 364,310              | 1,681,278.60            |
| Professional allowance                           | 11,030               | -51,586.33              |
| Sundry allowances                                | 5,250                | 0                       |
| Gratuities on retirement                         | 316,550              | 2,736,479.94            |
| Housing subsidy                                  | 8,369,320            | 9,518,789.44            |
| Overtime                                         | 36,983,470           | 53,360,563.08           |
| Overtime (IVR)                                   | 33,390               |                         |
| Incentive bonus                                  | 11,657,940           | 10,988,723.28           |
| Long-service bonus                               | 15,552,370           | 15,547,008.17           |
| Executive Mayor                                  | 720,970              | 730,593.18              |
| Councillors                                      | 34,714,280           | 32,949,195.37           |
| Deputy Executive Mayor                           | 576,770              | 573,524.34              |
| Councillor telephone allowance                   | 1,116,830            | 1,082,628.00            |
| Salaries capitalised to PPE                      | 0                    | -6,939,302.78           |
| <b>TOTAL</b>                                     | <b>1,089,811,130</b> | <b>1,071,989,047.76</b> |

|                |                                 |
|----------------|---------------------------------|
| <b>CHAPTER</b> | <b>GRANTS AND ASSESSMENT OF</b> |
| <b>4</b>       | <b>ARRARS</b>                   |

#### 4.1 QUARTERLY INFORMATION ON GRANTS (2006/07 FINANCIAL YEAR)

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, NO. 56 OF 2003, FOR THE YEAR ENDED 30 JUNE 2007

| Name of grants                            | Quarterly receipts |             |             |            |            |            | Total<br>Funds<br>Received | Quarterly expenditure |            |           |         |             |            | Total Spent |
|-------------------------------------------|--------------------|-------------|-------------|------------|------------|------------|----------------------------|-----------------------|------------|-----------|---------|-------------|------------|-------------|
|                                           | July-Sept          | Oct-Dec     | Jan- Mar    | April-June | July-Sept  | Oct-Dec    |                            | Jan- Mar              | April-June | July-Sept | Oct-Dec | Jan- Mar    | April-June |             |
| Financial Management Grant                | 1,000,000          |             |             |            | 103,079    | 252,095    | 1,000,000                  | 66,292                | 121,896    |           |         | 543,362     |            |             |
| National Electrification Programme        | 8,333,333          | 7,017,544   | 3,500,000   | 2,177,000  | 3,919,987  | 4,196,397  | 21,027,877                 | 2,748,873             | 4,392,679  |           |         | 15,257,936  |            |             |
| Municipal Infrastructure Grant            | 37,000,000         | 19,000,000  | 56,666,667  | 19,590,614 | 29,154,180 | 19,044,739 | 132,257,281                | 10,128,591            | 11,921,098 |           |         | 70,248,608  |            |             |
| Restructuring Grant                       | 0                  | 25,000,000  |             |            | 7,487,062  | 8,838,662  | 25,000,000                 | 6,591,281             | 30,943,508 |           |         | 53,860,513  |            |             |
| Equitable Share (excluding MURP)          | 157,347,596        | 118,417,604 | 196,180,093 |            | 35,060,206 | 44,652,481 | 471,945,293                | 40,493,976            | 38,734,972 |           |         | 158,941,635 |            |             |
| Effective Disaster Management             | 1,500,000          |             |             |            | 436,351    | 480,376    | 1,500,000                  | 589,447               | 653,628    |           |         | 2,159,802   |            |             |
| MSIG - Project Consolidate                | 2,000,000          | 2,000,000   |             |            | 1,120,699  | 809,078    | 4,000,000                  | 14,410                | 1,672,620  |           |         | 3,616,807   |            |             |
| World Cup Soccer (Construction of Stadia) |                    |             | 110,086,628 |            |            |            | 110,086,628                | 36,258,655            | 73,547,340 |           |         | 109,805,995 |            |             |
| World Cup Soccer (Transport or PTIF)      | 30,000,000         |             | 38,600,000  | 0          | 78,1212    | 2,118,922  | 68,600,000                 | 9,551,782             | 27,103,305 |           |         | 39,555,221  |            |             |
| Motherwell Urban Renewal Programme        | 5,175,370          | 3,450,247   | 6,900,494   |            | 2,222,967  | 2,566,270  | 15,526,111                 | 1,802,375             | 3,106,502  |           |         | 9,698,114   |            |             |

## 4.2 ASSESSMENT OF ARREARS

The Council's revenue collection rate has showed an improvement over recent years, increasing from 89% in 2002/03 to 97% at the end of June 2007.

The Municipality introduced a number of intervention programmes to enhance revenue collection. These include the following:

- Enforcement of the Council's debt collection and suspension of services
- Short-term arrangements
- Water flow restrictors
- Allocation of prepaid purchases towards other debts
- Stop/Debit order arrangements
- Conversion to prepaid metering systems
- Collection of outstanding monies from municipal Councillors and officials
- Clearance of arrears by service providers that have been awarded tenders

Whilst the Municipality restricts the services of defaulters, it also provides poor indigent households with free basic services, as mentioned in Chapter 2.

The Municipality had a provision for doubtful debts of R602 million as at 30 June 2007, compared to the total outstanding debtor's accounts of R1.193 billion. The provision (approximately 50% of outstanding debtors) is considered to be adequate to cover any uncollectable debts.

# **ANNEXURE “A”**

## **FINANCIAL INFORMATION**

**“A1”**

**REPORT OF THE  
AUDITOR GENERAL**

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL AND  
EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL  
STATEMENTS AND PERFORMANCE INFORMATION OF THE NELSON  
MANDELA BAY METROPOLITAN MUNICIPALITY FOR THE YEAR  
ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Nelson Mandela Bay Metropolitan Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 89 to 167.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy Note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - Selecting and applying appropriate accounting policies.
  - Making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by Section 188 of the Constitution of the Republic of South Africa, 1996, read with Section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.
6. An audit also includes evaluating the:
  - Appropriateness of accounting policies used.
  - Reasonableness of accounting estimates made by management.
  - Overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by the Nelson Mandela Bay Metropolitan Municipality

in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis of accounting**

9. The Municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

**Basis for qualified opinion**

**Property, plant and equipment**

10. Property, plant and equipment amounted to R4 billion as disclosed in the statement of financial position. As a result of the circumstances detailed below, the extent to which property, plant and equipment may be misstated could not be determined.
11. The Municipality embarked on an exercise to physically identify all items of property, plant and equipment during the 2005-06 and 2006-07 financial years, including all land and buildings, infrastructural and movable assets.
12. However, all land identified during the verification process has been recorded at a nil value and is still to be valued. Generally Accepted Municipal Accounting Practice (GAMAP) 17 on Property, plant and equipment, paragraph 25, requires that where an item of property, plant and equipment is acquired at no cost, it should initially be recognised at its fair value. The Municipality will only determine the valuation of all land within the next financial year, as part of the municipal property valuations to be conducted in terms of the Property Rates Act, 2004 (Act No. 6 of 2004).



**Opinion**

13. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Nelson Mandela Bay Metropolitan Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy Note 1 and in the manner required by the MFMA.

**OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in auditing the financial statements:

**Non-compliance with applicable legislation****Basic Conditions of Employment Act**

14. Instances were identified where municipal employees were required to work more than ten hours overtime a week without an agreement to this effect entered into between Council and the employees as required by Section 10(1) and 10(1A) of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997).

**Matters of governance****Internal audit**

15. The Internal Audit Division did not attend to all the matters contained in their audit plan. Deviations from the audit plan resulted in not all planned audits being conducted or completed.

The following are some of the processes planned to be audited, but which did not receive the attention as anticipated:

- (a) Recovery of debtors
- (b) Compliance with the Division of Revenue Act
- (c) Procurement and tenders (5% of time allocated utilised)
- (d) Low-cost housing
- (e) Human resources provision and support services

**Material corrections made to financial statements submitted for audit**

The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following adjustments that came to my attention during the conduct of the audit:

16.1 Adjustments made to Note 3: Non-current provisions

- (a) The provision for post-retirement benefits as disclosed in the statement of financial position has been adjusted to bring the provision in line with a recent actuarial valuation resulting in an increase of R120 million to non-current provisions and a decrease to the accumulated surplus .
- (b) The provision for the rehabilitation of landfill sites initially included only two of the three landfill sites and was also not discounted to present value. This resulted in a net increase of R4.6 million to non-current provisions and a decrease of the same amount to the accumulated surplus. The following significant adjustments were made to the provision for rehabilitation of the individual landfill sites.
  - (i) Ibhayi – An amount of R44 million provided
  - (ii) Arlington – Provision reduced by R30.5 million after discounting provision originally disclosed.
  - (iii) Koedoeskloof - Provision reduced by R8.9 million after discounting provision originally disclosed.

## 16.2 Changes to disclosure notes

### 16.2.1 Changes made to Note 32 - Capital commitments

Capital commitments approved but not yet contracted for have been adjusted by an amount of R357 million. This is due to the relevant supporting schedules not being correctly updated.

### 16.2.2 Changes made to Note 39 – Contingent liabilities

- (a) A tender received in respect of a loan facility to the amount of R300 million was initially disclosed as a contingent liability. This was subsequently removed from note 39.
- (b) Contingent liabilities amounting to R25 million have been added to the liabilities as originally disclosed in the financial statements, as further updated information was obtained.

## Internal control

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control.

| Reporting item                                      | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|-----------------------------------------------------|---------------------|---------------------|--------------------|-------------------------------|------------|
| <b>Basis for qualification of opinion</b>           |                     |                     |                    |                               |            |
| Property, plant and equipment                       |                     | ✓ <sup>1</sup>      |                    |                               |            |
| <b>Other matters</b>                                |                     |                     |                    |                               |            |
| Non-compliance with applicable laws and regulations |                     |                     | ✓                  |                               | ✓          |
| Matters of governance                               | ✓                   |                     |                    |                               | ✓          |

<sup>1</sup> The Municipality had accepted the risk of not valuing its property, plant and equipment by planning for such a valuation in the next financial year.

| Reporting item                                   | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|--------------------------------------------------|---------------------|---------------------|--------------------|-------------------------------|------------|
| Material corrections to the financial statements |                     |                     |                    |                               | ✓          |

### Control environment

18. The Municipality did not establish all the key elements of a control environment relating to the internal audit process (as reported above).

### Control activities

19. Control activities over business and accountancy processes were not effective in all instances. This is evident from the matters reported to management relating to non-compliance with relevant laws and regulations, human resource administration and inventory.

### Monitoring

20. The monitoring of controls, such as the internal audit process (as reported above), was not effective in all instances. This contributed to the audit findings relating to corrections required to the financial statements as reported above, as well as matters reported to management during the course of the audit relating to non-compliance with the Basic Conditions of Employment Act (reported above), the management of vehicles, the tender process and housing contracts administration.

### Investigations completed

21. The following investigations have been conducted by the Internal Audit Division:
- (a) Investigation of alleged irregularities regarding the awarding of a tender for soil laboratory material testing to a firm that had not scored the highest tender points.
  - (b) Investigation of alleged misrepresentation of sick leave by an employee. The employee conducted private business during this period, earning a second income.

- (c) Investigation into the alleged breach of a lease agreement – No. 7 Miramar Flats.

Further to the above, I draw your attention to the investigations as disclosed in Note 38 to the financial statements.

#### **Unaudited supplementary schedules**

22. The supplementary schedules set out on pages 168 to 202 do not form part of the financial statements and are presented for additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

#### **OTHER REPORTING RESPONSIBILITIES**

##### **Reporting on performance information**

23. I have audited the performance information as set out on pages 13 to 35.

##### **Responsibilities of the accounting officer**

24. In terms of Section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of Section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

##### **Responsibility of the Auditor-General**

25. I conducted my engagement in accordance with Section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice No. 646 of 2007* and Section 45 of the MSA.

26. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

**Audit findings**

28. No significant findings were identified as a result of my audit.

**APPRECIATION**

29. The assistance rendered by the staff of the Nelson Mandela Bay Metropolitan Municipality during the audit is sincerely appreciated.

*Auditor-General*

Pretoria

12 December 2007



A U D I T O R - G E N E R A L

**“A2”**

**RESPONSES TO THE  
AUDITOR-GENERAL'S  
REPORT**

**ACCOUNTING OFFICER'S RESPONSE TO THE AUDIT REPORT ON THE  
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR  
THE YEAR ENDED 30 JUNE 2007**

**INTRODUCTION**

In terms of Section 126(3)(b) Act 56/2003, the Auditor General is obliged to submit an audit report on the financial statements submitted by the Accounting Officer. The Auditor General has seen fit to submit that report "to the Council and Eastern Cape Provincial Legislature", the latter having no statutory oversight responsibility in the matter. Notwithstanding the failure by the Auditor General to comply with the MFMA, the Accounting Officer submits the following comments. The paragraph references are to those in the audit report.

**BASIS FOR QUALIFIED OPINION**

**Property, Plant and Equipment**

12. The valuation of land will be determined, as part and parcel of the current municipal property valuation process being undertaken in terms of a Council resolution. The Council considered it financially prudent to undertake land valuation, in conjunction with the property valuation process.

**OTHER MATTERS**

**Non-Compliance with Applicable Legislation**

**14. Basic Conditions of Employment Act**

The necessary agreements are being concluded.



**Matters of Governance****15. Internal Audit**

The audit plan for the 2006/07 financial year was not fully implemented, *inter alia* as a result of attending to urgent forensic investigations.

The areas of focus, as highlighted by the Auditor-General, will be covered in the 2007/08 financial year. In order to facilitate the effective implementation of the 2007/08 audit plan, specialised services will be contracted in, to assist with implementation, where deemed necessary.

**Material corrections made to financial statements submitted for audit****16.1 Adjustments made to Note 3: Non-current provisions**

- (a) The adjustment was necessitated as a result of a review of the actuarial valuation of post-retirement benefits.
- (b) The comments are noted.

**16.2 Changes to disclosure notes****16.2.1 Changes made to Note 32 – Capital commitments**

The comments are noted.

**16.2.2 Changes made to Note 39 – Contingent liabilities**

- (a) The Tender was approved at the Adjudication Committee on 8 May 2007 and the Tenderer withdrew their offer on 14 September 2007, when they realised that the rate they quoted would not be in their best interest.
- (b) The comments are noted.

**Control Environment**

18. The comment is noted.

**Control Activities**

19. The necessary corrective measures will be implemented.

**Monitoring**

20. The necessary corrective measures will be implemented.

**Investigations in progress or completed**

21. The comments are noted.

**OTHER REPORTING RESPONSIBILITIES**

**Reporting on Performance Information**

**Audit Findings**

28. The comments are noted.

**“A3”**

**REPORT OF THE AUDIT  
COMMITTEE**

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY - ANNUAL  
REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2007**

**Audit Committee members and attendance**

The Audit Committee has adopted appropriate formal terms of reference and consists of three independent external members, as listed below.

The Audit Committee meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

During the 2006/2007 financial year, four meetings were held.

| <b>Name of member attended</b> | <b>Number of meetings</b> |
|--------------------------------|---------------------------|
| SG Zamisa (chairman)           | 4                         |
| Prof. D. Rosenberg             | 4                         |
| Ms R. Shaw                     | 4                         |

**Audit Committee responsibilities**

The Committee reports that it has complied, as far as possible with its responsibilities set out in its Council-approved terms of reference and in line with relevant legislation requirements.

**Review of annual financial statements**

The Audit Committee has noted the qualified opinion expressed by the Auditor-General on the annual financial statements of the Nelson Mandela Bay Metropolitan Municipality. The basis for the qualified opinion is non-compliance with Generally Accepted Municipal Accounts Practices (GAMAP)

17. Paragraph 25 of GAMAP requires that where an item of property, plant and equipment is acquired at no cost, it should initially be recognized at its fair value.

During the 2005/2006 and 2006/2007 financial years, the Municipality embarked on an exercise to physically identify all items of property, plant and equipment, including all land and buildings, infrastructural and movable assets.

All land identified during the verification process was recorded at nil value by the Municipality. As a result of this non-compliance, the Auditor-General was not able to determine the extent to which property, plant and equipment may have been be misstated.

The Audit Committee is encouraged by the Municipality's plans and commitment to address this finding in the next financial year. The Audit Committee has also noted other matters in the Auditor-General's report pertaining to non-compliance with the Basic Condition of Employment Act; matters of governance within the Internal Audit Division; material corrections made to financial statements; as well as internal control and control activities.

Whilst it is acknowledged that there is great improvement from the previous financial year, the accounting officer of the metro must not relent in his efforts to improve and maintain effective efficient and transparent systems of financial and risk management and internal controls as required by Section 62(1)(c)(i) of the MFMA.

To this end, the Audit Committee recommends that the Internal Audit Division should set itself a realistic and achievable audit plan that is in line with current resources and capacity and also with identified high-risk and high-impact areas in municipal divisions. In addition, the full implementation of an efficient Performance Management System at all levels will also be critical in maintaining effective internal controls and risk management within these divisions.

The Audit Committee is confident that the Accounting Officer of the Municipality is adequately dealing with all the specific findings described in the other matters by the Auditor-General.

### **Review of annual financial statements of municipal entities**

#### **Centenary Hall Promotions:**

The Audit Committee has noted with concern the disclaimer of opinion by the Auditor-General on the annual financial statements of the Centenary Hall Promotions.

The basis for the disclaimer of opinion was that the Auditor-General was unable to obtain sufficient and appropriate evidence to provide a basis for an audit opinion. The Audit Committee noted the following areas as providing limitation of scope for the Auditor-General to express an opinion on the financial statements:

- Cash and equivalents
- Trade and other receivables
- Trade and other payables
- Income statement expenses
- Revenue
- VAT on income received

The Audit Committee, whilst concerned about the financial position of this entity of the Municipality during the current year under review, is not convinced that this is not a reflection on the general financial position and financial management within the Municipality. The Audit Committee recommends that a review of the management and organizational structure of the Centenary Hall Promotions be undertaken in order to effect tighter financial reporting and financial management controls within this entity and turn the situation around to achieve full compliance in the next financial year.

The Audit Committee has also noted various other matters raised by the Auditor- General. It is anticipated that the concerns raised in that regard will also be addressed adequately by the Municipality's accounting officer in the plan of action to achieve full compliance with the MFMA and other applicable legislation.

### **Feather Market Promotions**

The Audit Committee has noted the qualified opinion expressed by the Auditor General on the financial statements of the Feather Market Promotions. The basis of the qualified opinion is the limitation of scope on property, plant and equipment as required by IAS 16: property, plant and equipment. The other basis of the qualified opinion is the VAT on grants. Except for the issues on which a qualified opinion was expressed in the Auditor-General's report, the financial statements in all material respects presented the financial position of the Feather Market Promotions fairly.

The Audit Committee is satisfied with the financial position of the entity, its efficiency and effectiveness, and its overall compliance with the MFMA and other applicable legislation.

### **Mandela Bay Development Agency**

The Audit Committee has noted that the financial statements of the MBDA in all material respects present the financial position of the MBDA and its financial performance and cash flows for the year ended 30 June 2007 fairly, in accordance with the basis of accounting determined by National Treasury, MFMA and the Companies Act.

The Audit Committee is also confident that efficient and effective internal financial control and internal audit processes are in place at the MBDA.

**Conclusion**

The Audit Committee, except for the concerns expressed on the disclaimer of opinion on the financial statements of the Centenary Hall Promotions, accepts the conclusions of the Auditor- General on the annual financial statements for the year ended 30 June 2007 and recommends that the audited financial statements be adopted by the municipal Council.

**Appreciation**

On behalf of the Audit Committee, I would like to extend sincere appreciation to the municipal staff and the Office of the Auditor-General for their assistance and support during the financial year under review.

**SG Zamisa****Chairperson****Date: January 2008**



**“A4”**

**REPORT ON THE FINANCIAL  
STATEMENTS FOR THE  
FINANCIAL YEAR  
1 JULY 2006 TO 30 JUNE 2007**

## **PERFORMANCE OVERVIEW**

Below is a brief performance overview comparing the financial results with the financial targets:

|                                                               | <b>2006/07</b> | <b>2005/06</b> |               |
|---------------------------------------------------------------|----------------|----------------|---------------|
| <b>Operational Performance</b>                                | <b>Actual</b>  | <b>Actual</b>  | <b>Target</b> |
| • Actual operating expenditure to budget                      | 136,0%         | 101,7%         | 99%           |
| • Actual operating income to budget                           | 151,4%         | 104,2%         | 99%           |
| • Capital spending to budget                                  | 87,6%          | 87,3%          | 90%           |
| • Personnel Costs to income                                   | 29,4%          | 31,2%          | 30%           |
| • Repairs and Maintenance as % of total Operating Expenditure | 7,2%           | 8,2%           | 9%            |
| • Capital charges to Annual Operating Income                  | 5,1%           | 7,0%           | 5.8%          |
| • Net Debtors to Annual Operating Income                      | 12,4%          | 18,6%          | 16%           |
| • Loan Debt to Income Ratio                                   | 4,5%           | 14,9%          | 22%           |
| <b>Liquidity</b>                                              |                |                |               |
| • Debtors collection period (days)                            | 199            | 208            | 55            |
| • Debtors Collection Ratio                                    | 97%            | 97%            | 100%          |
| • Ratio of outstanding debtors to revenue                     | 25,0           | 37,7           | 15            |
| • Creditors Turnover (days)                                   | 55             | 57             | 45            |
| <b>Financial Structuring</b>                                  |                |                |               |
| • Cost coverage <sup>2</sup>                                  | 10             | 10             | 6             |

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<sup>2</sup> Cost coverage is determined as follows:  
Available cash plus investments divided by monthly fixed operating expenditure, such as personnel costs, purchase of power, etc.

## 1. INTRODUCTION

It is a privilege for the accounting officer to present the report on the financial results of the Nelson Mandela Bay Metropolitan Municipality for the financial year ended 30 June 2007.

It should be noted that the Municipality is serving as a pilot site in National Treasury's Local Government Budgeting and Financial Management Reform Programme. The Municipality, being a pilot site, is required to implement Generally Recognised Accounting Practice (GRAP). Accordingly, the financial statements for the year ended 30 June 2007 have been prepared in the GRAP format, whilst complying with the exemptions to the Accounting Standards as indicated in Government Gazette No. 30013.

The report firstly deals with Key Financial Ratios and Statistics, Capital Expenditure, the overall Operating Results, the Balance Sheet, and other Reserves and Special Funds. It concludes with a brief summary of the overall results.

### 1.1 KEY FINANCIAL RATIOS AND STATISTICS

This section provides an overview of ratios relevant to income and expenditure, the statement of financial position, the cash flow statement and the performance statistics of the Municipality's services.

### 1.2 INCOME AND EXPENDITURE

|                              |                |                |
|------------------------------|----------------|----------------|
|                              | <b>2006/07</b> | <b>2005/06</b> |
| <b>1.2.1 Personnel Costs</b> | <b>29.4%</b>   | <b>31.2%</b>   |

Personnel cost to income percentage expresses this category of expenditure as a percentage of total income. It reflects the expenditure trends relative to the previous year and indicates whether the control exercised over this expenditure category is reflected in the final results.

### **1.3 STATEMENT OF FINANCIAL POSITION**

The ratios in this section reflect that the Municipality is financially strong and well managed.

|                                                       |                |                |
|-------------------------------------------------------|----------------|----------------|
|                                                       | <b>2006/07</b> | <b>2005/06</b> |
| <b>1.3.1 Turnover Rate of Consumer Debtors (days)</b> | <b>199</b>     | <b>208</b>     |

This ratio measures the efficiency with which the Municipality collects its outstanding debt and converts it back into cash.

More efficient collection of outstanding debtors has resulted in a reduction in this ratio.

|                                                                          |                |                |
|--------------------------------------------------------------------------|----------------|----------------|
|                                                                          | <b>2006/07</b> | <b>2005/06</b> |
| <b>1.3.2 Consumer Deposits in relation to Consumer Debtors (in days)</b> | <b>26,48</b>   | <b>24,36</b>   |

Consumer deposits are kept as a security against non-payment by debtors. This ratio reflects how many days of outstanding consumer debtors are covered by cash held as deposits.

The year-on-year movement shows an improved position, with 26,5 days of outstanding debtors covered by security deposits.

### **1.4 CASH FLOW STATEMENT**

|                                        |                |                |
|----------------------------------------|----------------|----------------|
|                                        | <b>2006/07</b> | <b>2005/06</b> |
| <b>1.4.1 Cash to interest coverage</b> | <b>36:1</b>    | <b>20:1</b>    |

This ratio depicts whether the Municipality generates sufficient cash from ordinary operations to meet its interest commitments. It shows the number of times the outflow of cash in respect of interest on loans are covered by cash generated from operations.

The year-on-year comparison indicates that the Municipality has an improved ratio, which is due to lower interest charges being paid on loans.

|                                          |                |                |
|------------------------------------------|----------------|----------------|
| <b>1.4.2 Loan debt to cash (in days)</b> | <b>2006/07</b> | <b>2005/06</b> |
|                                          | <b>89</b>      | <b>388</b>     |

This ratio indicates how long it will take the municipality to redeem its loan debt from the cash generated from its operations.

The year-on-year comparison reflects a significant improvement in this ratio, indicative of the improvement in cash generated, as well as the reduction in loan debt.

## **2. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

### **2.1 CAPITAL EXPENDITURE**

Capital expenditure incurred during the 2006/07 financial year, compared with the amended budget, is as follows:

| <b>Directorate</b>                            | <b>Amended Budget</b> | <b>Actual Expenditure</b> | <b>Variance with Amended Budget {over/(under)}</b> |
|-----------------------------------------------|-----------------------|---------------------------|----------------------------------------------------|
|                                               | <b>R</b>              | <b>R</b>                  | <b>R</b>                                           |
| Infrastructure and Engineering                | 234 663 820           | 218 209 919               | (16 453 901)                                       |
| Housing and Land                              | 25 046 700            | 19 818 030                | (5 228 670)                                        |
| Recreational and Cultural Services            | 27 294 380            | 17 450 126                | (9 844 254)                                        |
| Safety and Security                           | 24 079 980            | 22 119 154                | (1 960 826)                                        |
| Economic Development, Tourism and Agriculture | 34 993 000            | 20 859 466                | (14 133 534)                                       |
| Corporate Administration                      | 35 779 560            | 21 620 957                | (14 158 603)                                       |
| Budget and Treasury                           | 99 358 700            | 72 084 574                | (27 274 126)                                       |
| Constituency Co-ordinator                     | 2 700 000             | 664 229                   | (2 035 771)                                        |
| Health                                        | 16 547 350            | 2 703 236                 | (13 844 114)                                       |
| Environment and Waste Management              | 34 953 230            | 32 824 453                | (2 128 777)                                        |
| Sanitation                                    | 119 756 920           | 110 346 388               | (9 410 532)                                        |
| Water                                         | 84 278 500            | 77 896 606                | (6 381 894)                                        |
| Electricity and Energy                        | 206 702 000           | 197 857 104               | (8 844 896)                                        |
| Municipal Manager                             | 148 860 000           | 156 947 181               | 8 087 181                                          |
| Motherwell Urban Renewal Programme (MURP)     | 18 189 280            | 3 942 488                 | (14 246 792)                                       |
|                                               | <b>1 113 203 420</b>  | <b>975 343 911</b>        | <b>137 859 509</b>                                 |

It should be noted that compared to the 2006/07 amended Capital Budget, the actual expenditure amounted to 87,6% of the amended Budget.

The main reasons for variations compared to the amended budget in respect of Directorates that did not achieve a 90% spending rate, are the following:

**2.1.1 Infrastructure and Engineering – Rate and General (over/(under))**

- Eveready Road Reconstruction (R728 720)  
The initial consultant's contract was terminated due to non-performance and a new consultant appointed, which resulted in a delay in the progress on this project.
  - Traffic Improvements:  
NU2 Kragga Kamma Interchange (R600 000)  
A delay in the Environmental Impact Assessment (EIA) and the negotiations with the relevant property owners taking longer than anticipated resulted in a delay in the progress on this project.
- (over/(under))**
- Realignment: Brak River: KwaNobuhle (R1 612 0000)  
Tender prices received were higher than anticipated, with the result that alternative designs had to be considered.
- (R2 940 720)**

**2.1.2 Economic Development, Tourism and Agriculture**

- Auto Cluster (UDDI) Logistics Park (R12 874 670)  
R10 million grant from the Department of Economic Affairs, Environment and Tourism (DEAET) was received late in the financial year.

- Rehabilitation and Improvement of Market Building (R590 000)  
Tenders were advertised twice, but no contractors  
Tendered.  

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**(R13 464 670)**

### 2.1.3 Budget and Treasury

- General Valuation Project (R13 651 449)  
Delayed implementation of project resulted in  
underspending. In accordance with a Council  
decision, the funding for this project has been  
ringfenced from the Restructuring Grant.
- New Billing System (R12 826 340)  
This project was slightly behind schedule,  
but will be completed during the 2007/08  
financial year.  

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**(R26 477 789)**

### 2.1.4 Constituency Co-ordinator

- Office Accommodation – Ward Councillor (R2 035 771)  
Identification of appropriate sites was a  
challenge and therefore construction could not  
commence.

### 2.1.5 Health

- Construction of Type C3/D Clinic: New Development  
Area 12 Motherwell (R2 500 000)

(over/(under))

The anticipated Municipal Infrastructure Grant (MIG) funding did not materialise.

- Construction of new Community Health Centre at Walmer (R9 303 985)

Initially a shortfall in the budgetary provision delayed the award of the contract.

Council approved additional funding for the project on 30 May 2007.

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**(R11 803 985)**

#### 2.1.6 Recreation, Arts and Culture

- Disabled facilities (R431 543)  
Equipment was ordered from overseas and not delivered as at year-end.
- Upgrade KwaDwesi Sports Field (R992 082)  
The Contractor was only appointed in 2007/08 due to previous tenderers not possessing the required Construction Industry Development Board (CIDB) grading.
- Mendi Road Bottle Store Development (R1 995 540)  
Construction can only commence once the agreement between Province and the Municipality has been signed.
- Arts Centre – Despatch Craft Centre (R2 000 000)  
Awaiting R300 000 commitment from Province.  
Only received verbal commitment to-date.

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**(R5 419 165)**



### 2.1.7 Corporate Administration

- Computer enhancements – Corporate (R1 119 171)  
Tender prices were much lower than the budgeted provision, which resulted in the underexpenditure.
- Alterations and additions to Kabah Langa Hall (R4 225 145)  
The Adjudication Committee recommended the appointment of a contractor who did not have the necessary grading and safety certificates at the time. The contractor was given a period of time to obtain the necessary grading and safety certificates, which caused a delay in the commencement of this project.
- ICT Strategy/Data Warehouse/System Alignment (R1 331 250)  
Tender prices came in much lower than the budgeted provision, which resulted in the underexpenditure.
- Switchboard NMBM (R1 660 000)  
Equipment was not delivered as at financial year end.
- Upgrading of NU 30 Hall in Motherwell (R1 693 195)

**(over/(under))**

As a result of the contract prices being higher than the budgeted provision, additional funding had to be sourced before the contract could be awarded. This resulted in a time delay which caused underexpenditure.

---

**(R10 028 761)**

### 2.1.8 Motherwell Urban Renewal (MURP)

- Xhosa Village (R8 857 431)

The initial scope of the project was beyond the budget allocation. The scope of the project is currently being re-assessed.
  - Helenvale Development (R1 958 183)

Due to a delay in the appointment of a project manager, the implementation of the project was delayed.
- (R10 815 614)

## 2.2 Capital Financing

The 2006/07 Capital Expenditure was financed as follows:

|                                             |                             |
|---------------------------------------------|-----------------------------|
| Capital Replacement Reserve (CRR)           | 323 230 530                 |
| Replacement Levies Grant                    | 111 926 547                 |
| External Finance Fund                       | 127 557 429                 |
| Restructuring Grant                         | 84 115 358                  |
| Equitable Share                             | 13 489 375                  |
| Grants and Subsidies – State                | 204 452 513                 |
| Grants and Subsidies – Province             | 16 004 669                  |
| Grants and Subsidies – Other                | 1 022 927                   |
| Contributions from Current Income           | 1 380 000                   |
| Public Contributions                        | 7 886 160                   |
| Swedish Grant                               | 1 850 679                   |
| Consolidated Municipal Infrastructure Grant | 68 732 462                  |
| Department of Mineral and Energy            | 13 965 104                  |
| Contributions to Capital                    | 30 159                      |
| <b>TOTAL</b>                                | <u><b>R 975 343 911</b></u> |

### 3. OPERATING RESULTS

The summarised operating results as at 30 June 2007 are as follows:

|                                                        | 2006                 | 2007                 |                      |                       | 2006 to 2007<br>Growth |
|--------------------------------------------------------|----------------------|----------------------|----------------------|-----------------------|------------------------|
|                                                        | Actual<br>R          | Actual<br>R          | Budget<br>R          | Variance<br>R         |                        |
| <b>REVENUE</b>                                         |                      |                      |                      |                       |                        |
| Property rates                                         | 498 866 544          | 533 190 364          | 541 872 790          | 8 682 426             | 6.9%                   |
| Service Charges                                        | 1 573 735 823        | 1 653 138 228        | 1 636 668 000        | -16 470 228           | 5.0%                   |
| Regional Services Levies - turnover                    | 68 692 001           | 0                    | 0                    | 0                     |                        |
| Regional Services Levies - remuneration                | 211 586 760          | 0                    | 0                    | 0                     |                        |
| Interest earned - external investments                 | 124 734 548          | 141 611 910          | 134 951 780          | -6 660 130            | 13.5%                  |
| Interest earned - outstanding debtors                  | 78 360 901           | 77 367 969           | 55 710 000           | -21 657 969           | -1.3%                  |
| Fines                                                  | 13 227 218           | 17 368 619           | 21 666 190           | 4 297 571             | 31.3%                  |
| Licences and Permits                                   | 57 508 895           | 6 409 122            | 6 371 520            | -37 602               | -88.9%                 |
| Government Grants and Subsidies                        | 521 589 499          | 1 251 855 724        | 567 391 660          | -684 464 064          | 140.0%                 |
| Other Income                                           | 139 682 627          | 218 536 032          | 183 111 040          | -35 424 992           | 56.5%                  |
| Gains on the disposal of property, plant and equipment | 912 465              | 593 785              | 21 300               | -572 485              | -34.9%                 |
| Contributions: Other                                   | 257 455 700          | 877 738 543          | 6 246 030            | -871 492 513          | 240.9%                 |
| <b>Total Revenue</b>                                   | <b>3 546 352 981</b> | <b>4 777 810 296</b> | <b>3 154 010 310</b> | <b>-1 623 799 986</b> | <b>34.7%</b>           |
| <b>EXPENDITURE</b>                                     |                      |                      |                      |                       |                        |
| Employee related costs                                 | 932 818 668          | 1 036 653 107        | 1 025 708 420        | -10 944 687           | 11.1%                  |
| Remuneration of Councillors                            | 29 324 731           | 35 335 941           | 37 128 850           | 1 792 909             | 20.5%                  |
| Bad debts                                              | 7 926 420            | 19 604 983           | 2 134 700            | -17 470 283           | 147.3%                 |
| Collection costs                                       | 1 949 931            | 2 061 166            | 2 177 030            | 115 864               | 5.7%                   |
| Depreciation                                           | 192 016 619          | 266 587 719          | 212 002 090          | -54 585 629           | 38.8%                  |
| Repairs and Maintenance                                | 257 732 667          | 307 142 106          | 278 089 900          | -29 052 206           | 19.2%                  |
| Interest paid                                          | 27 252 118           | 24 183 338           | 28 430 730           | 4 247 392             | -11.3%                 |
| Bulk purchases                                         | 601 176 927          | 666 322 864          | 676 654 920          | 10 332 056            | 10.8%                  |
| Grants and subsidies paid                              | 41 108 313           | 42 970 595           | 13 507 790           | -29 462 805           | 4.5%                   |
| General Expenses                                       | 551 599 188          | 629 994 135          | 351 614 840          | -278 379 295          | 14.2%                  |
| Contributions To/(From) Provisions                     | 468 759 830          | 1 259 785 578        | 526 561 040          | -733 224 538          | 168.7%                 |
| <b>Total Expenditure</b>                               | <b>3 111 665 412</b> | <b>4 290 641 532</b> | <b>3 154 010 310</b> | <b>-1 136 631 222</b> | <b>37.9%</b>           |
| <b>Surplus for the year</b>                            | <b>434 687 569</b>   | <b>487 168 764</b>   | -                    |                       |                        |
| Statement of Changes in Net Assets                     | 780 121 235          | -751 575 165         |                      |                       |                        |
| Net results for the year                               | 1 214 808 804        | -264 406 401         |                      |                       |                        |
| Accumulated Surplus at beginning of year               | 72 298 053.00        | 1 287 106 857        |                      |                       |                        |
| Accumulated Surplus at end of year                     | 1 287 106 857        | 1 022 700 456        |                      |                       |                        |

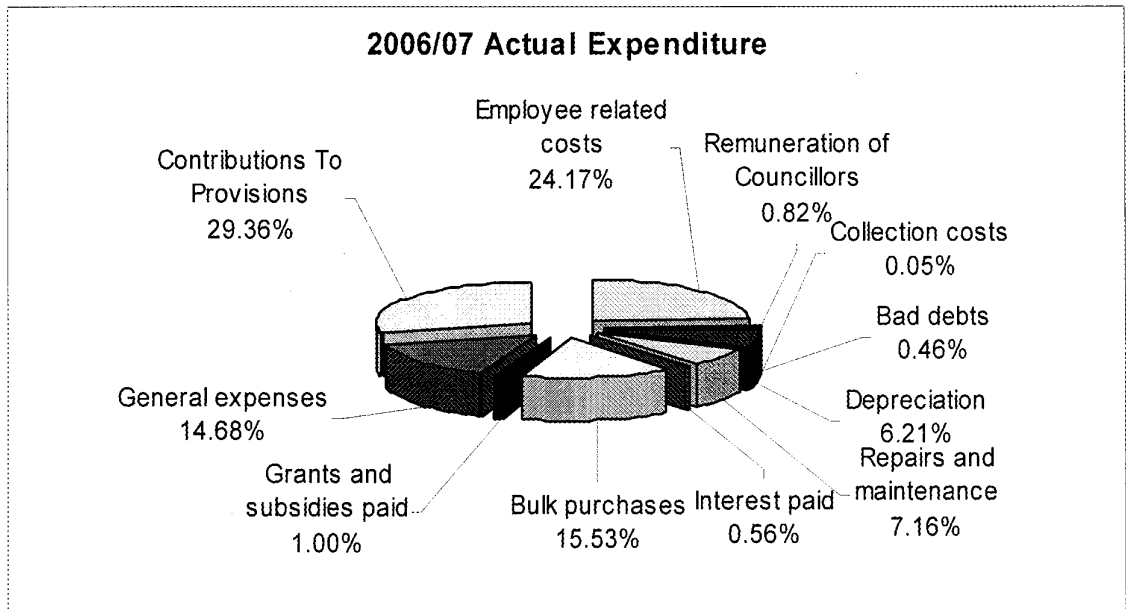
The 2006/07 increase in actual revenue and expenditure amounted to 35% and 38% respectively, compared to the 2005/06 financial year.

### 3.1 OPERATING EXPENDITURE

The analysis of Council's operating expenditure is as follows:

|                             |                      |                |
|-----------------------------|----------------------|----------------|
| Employee related costs      | 1 036 653 107        | 24.17%         |
| Remuneration of Councillors | 35 335 941           | 0.82%          |
| Bad debts                   | 19 604 984           | 0.46%          |
| Collection costs            | 2 061 166            | 0.05%          |
| Depreciation                | 266 587 719          | 6.21%          |
| Repairs and maintenance     | 307 142 106          | 7.16%          |
| Interest paid               | 24 183 338           | 0.56%          |
| Bulk purchases              | 666 322 864          | 15.53%         |
| Grants and subsidies paid   | 42 970 595           | 1.00%          |
| General expenses            | 629 994 135          | 14.68%         |
| Contributions To Provisions | 1 259 785 579        | 29.36%         |
| <b>Total Expenditure</b>    | <b>4 290 641 532</b> | <b>100.00%</b> |

The expenditure analysis is reflected in the following graph:



Expenditure such as personnel costs, purchase of power and general expenses in respect of which Council has limited capacity to adjust in the short term, account for approximately 54% of operating expenditure. This leaves limited scope for variation of other expenditure categories.

An analysis of personnel costs by service is as follows:

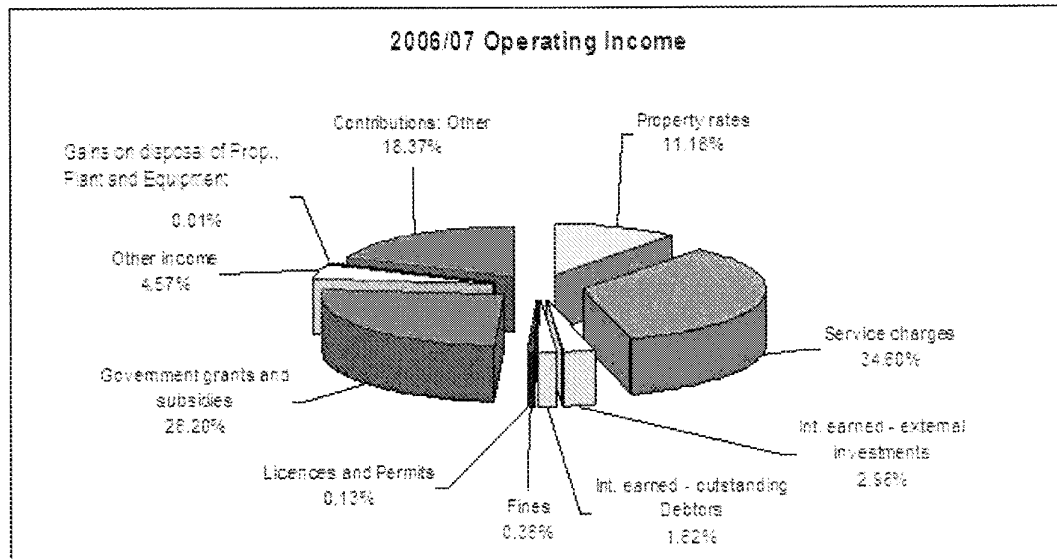
| Service          | Original Budget        | Actual Expenditure     | Variance with Original Budget {Over/(Under)} |             |
|------------------|------------------------|------------------------|----------------------------------------------|-------------|
|                  | R                      | R                      | R                                            | %           |
| Rate and General | 758 471 710            | 777 561 758            | 19 090 048                                   | 2.5%        |
| Electricity      | 115 891 650            | 123 203 465            | 7 311 815                                    | 6.3%        |
| Market           | 4 915 740              | 5 118 168              | 202 428                                      | 4.1%        |
| Refuse           | 28 386 260             | 31 776 429             | 3 390 169                                    | 11.9%       |
| Sanitation       | 56 472 320             | 46 593 123             | (9 879 197)                                  | (17.5%)     |
| Water            | 61 570 740             | 52 400 164             | (9 170 576)                                  | (14.9%)     |
|                  | <b>R 1 025 708 420</b> | <b>R 1 036 653 107</b> | <b>R 10 944 687</b>                          | <b>1.1%</b> |

### 3.2 OPERATING INCOME

The following is a breakdown of Council's operating income represented by the respective income categories:

|                                                    | R                    | % of Total Revenue |
|----------------------------------------------------|----------------------|--------------------|
| <b>REVENUE</b>                                     |                      |                    |
| Property rates                                     | 533 190 364          | 11.18%             |
| Service charges                                    | 1 653 138 228        | 34.60%             |
| Interest earned - external investments             | 141 611 910          | 2.96%              |
| Interest earned - outstanding Debtors              | 77 367 969           | 1.62%              |
| Fines                                              | 17 368 619           | 0.36%              |
| Licences and Permits                               | 6 409 122            | 0.13%              |
| Government grants and subsidies                    | 1 251 855 724        | 26.20%             |
| Other income                                       | 218 536 032          | 4.57%              |
| Gains on disposal of Property, Plant and Equipment | 593 785              | 0.01%              |
| Contributions: Other                               | 877 738 543          | 18.37%             |
| <b>Total Revenue</b>                               | <b>4 777 810 296</b> | <b>100.00%</b>     |

The above breakdown is displayed in the following pie-chart:



Service charges, property rates and grants and subsidies are the major sources of income, constituting 72% of the income base.

The net operating results are normally reflected in the balance sheet, which will now be discussed.

### **3.3 OPERATING RESULTS - VARIANCES**

Total accrued operating expenditure<sup>3</sup> amounted to R4 290 641 532, whilst the total accrued income amounted to R4 777 810 296. This resulted in an excess of accrued operating income over accrued operating expenditure of R487 168 764 for the year.

After comparing actual accrued expenditure and accrued income with the original budget, the results are attributable to the following:

<sup>3</sup> Expenditure incurred in the daily operations of the organisation, such as remunerating personnel, transport, repairs and maintenance of equipment, etc.

|                                         | R                    | Variance<br>%      | R                        |
|-----------------------------------------|----------------------|--------------------|--------------------------|
| <b>Expenditure less than budget:</b>    |                      |                    |                          |
| Councillors' Remuneration               | 1 792 909            | 5                  |                          |
| Interest Paid                           | 4 247 392            | 15                 |                          |
| Collection Costs                        | 115 864              | 5                  |                          |
| Bulk Purchases                          | <u>10 332 056</u>    |                    | 216 488 221              |
| <b>Expenditure greater than budget:</b> |                      |                    |                          |
| Employee related costs                  | (10 944 687)         | 1                  |                          |
| Bad Debts                               | (17 470 283)         | 818                |                          |
| Depreciation                            | (54 585 629)         | 26                 |                          |
| Repairs and Maintenance                 | (29 052 206)         | 10                 |                          |
| Grants and subsidies paid               | (29 462 805)         | 218                |                          |
| General Expenses                        | (278 379 295)        | 79                 |                          |
| Contributions to Provisions             | <u>(733 224 538)</u> | 139                | (1 153 119 443)          |
| <b>Income in excess of Budget:</b>      |                      |                    |                          |
| Service Charges                         |                      | 16 470 228         | 1                        |
| Interest Earned – Outstanding Debtors   |                      | 21 657 969         | 39                       |
| Interest Earned - External Investments  |                      | 6 660 130          | 5                        |
| Government Grants and Subsidies         |                      | 684 464 064        | 121                      |
| Gains on disposal of PPE                |                      | 572 485            | 2 688                    |
| Other Income                            |                      | 35 424 992         | 19                       |
| Licences and Permits                    |                      | 37 602             |                          |
| Contributions - other                   |                      | <u>871 492 513</u> | 13 953 1 636 779 983     |
| <b>Income less than Budget:</b>         |                      |                    |                          |
| Property Rates                          |                      | (8 682 426)        | (2)                      |
| Fines                                   |                      | <u>(4 297 571)</u> | (20) <u>(12 979 997)</u> |
| Net Accrued Surplus                     |                      |                    | <u>487 168 764</u>       |

Detailed below are the reasons for the more significant variations:

**3.3.1 Underspending against budget:**

**3.3.1.1 Interest Paid – R4 247 392**

The underspending is mainly due to the refinancing and consolidation of DBSA loans at more favourable interest rates.

**3.3.1.2 Bulk Purchases – R10 332 056**

The underspending in bulk purchases of R10 332 056 is mainly due to the lower than anticipated growth in bulk electricity purchases and steam raising purchases.

**3.3.2 Expenditure greater than budget:**

**3.3.2.1 Employee related costs – R10 944 687**

The increased spending in personnel costs is mainly due to the payment of additional transitional allowances, which was not provided for in the original budget.

**3.3.2.2 Bad Debts – R17 470 283**

The increased spending in respect of bad debts is as a result of increased debt write-offs in 2006/07.

**3.3.2.3 Depreciation – R54 585 629**

Depreciation is R54 585 629 more than budgeted due to the higher than anticipated final capital expenditure for 2006/07, resulting in more assets being commissioned.



**3.3.2.4 Repairs and Maintenance – R29 052 206**

The increased spending of R29 052 206 is as a result of higher maintenance expenditure on Electricity Service overhead and underground lines maintenance, as well as the Water and Sanitation Services' plant and network maintenance.

**3.3.2.5 General Expenses – R278 379 295**

This category of expenditure is much higher than anticipated due to the Housing Top Structures expenditure of R82 million, which had no budget allocation on the original approved operating budget as well as Assistance-to-the-Poor rebates, which was R131 million in excess of the budgeted amount.

**3.3.2.6 Contributions – R733 224 538**

The increased spending resulted from the need to adjust the provisions to their correct levels, especially the Provision for Post-Retirement Benefits which exceeded its budgeted amount by R432 million. This category also includes the Capital Income Appropriation in respect of Capital Grants and Subsidy income of R422 million which was not budgeted for.

**3.3.3 Income in excess of budget:****3.3.3.1 Service Charges – R16 470 228**

The service charges in excess of budget are largely due to Water and Sanitation Services' income being higher than anticipated.

**3.3.3.2 Interest Earned – Outstanding Debtors – R21 657 969**

The income from interest on outstanding debtors is higher than expected, due both to the increase in the overall outstanding debtors' balances and an increase in the interest rate.

**3.3.3.3 Interest Earned – External Investments – R6 660 130**

The interest earned on external investments is more than budgeted due to the higher interest rate on external investments.

**3.3.3.4 Government Grants and Subsidies – R684 464 064**

The excess income is attributable to the Housing Top Structure subsidy of R66 million as well as the capital grant and subsidy allocations of R428 million which were not included in the original approved operating budget and the Equitable Share Subsidy funding of ATTP which was exceeded by R144 million.

**3.3.3.5 Other Income – R35 424 992**

This category includes income from Sale of Land of approximately R11 million, which was not included in the original budget as well as other miscellaneous income items, such as plan fees being in excess of the original budget.

**3.3.3.6 Contribution - Other – R871 492 513**

The excess results from the Capital funding of Provincial Government Programmes of R647 million not originally included in the budget, the unspent levies of R53 million brought forward into 2006/07 and an R18 million contribution from the provision for doubtful debts in excess of the budget.

**4. BALANCE SHEET**

The balance sheet reflects the financial results and policies of Council at a particular point in time. It is a snapshot at the year-end to determine the asset worth of the organisation and to what extent that worth is encumbered.

#### **4.1 Financial Policies**

The objectives of the Financial Policy Review adopted by Council on 25 October 1995 were to establish a Loans Redemption Fund, an adequate Working Capital Reserve and a General Reserve, as prerequisites for attracting external investors. It should be noted that in accordance with GAMAP, the Working Capital Reserve ceased to exist and therefore the balance was transferred to the Provision for Doubtful Debts with effect from 1 July 2002, whilst the maintenance of a general reserve is no longer permissible.

There were no major financial policy reviews in the year under review that deviated from this course. The level of the Provision for Doubtful Debts is maintained at 100% of amounts owing by debtors older than 90 days.

#### **4.2 Housing Development Fund**

The fund decreased by R6 507 657 (7.8%) from R83 038 007 to R76 530 350.

#### **4.3 Capital Replacement Reserve**

The reserve increased by R186 598 636 (79.0%) from R236 317 538 to R422 916 174. This increase is mainly attributable to increased contributions to the reserve.

#### **4.4 Government Grant Reserve**

The reserve increased by R521 518 832 (76,1%) from R685 371 949 to R1 206 890 781. The increase is mainly attributable to the utilisation of Capital Grants to purchase various items of property, plant and equipment.

#### **4.5 Donations and Public Contribution Reserve**

The reserve increased by R94 997 533 (79,5%) from R119 533 930 to R214 531 463. The increase is mainly attributable to the appropriate accounting for the

Municipality's movable assets, which was initially financed from operating income but has now been capitalised. The process involved physically locating the assets, inspecting its condition and attaching values to the assets.

#### **4.6 Non-current Liabilities**

##### **4.6.1 Long-term liabilities<sup>5</sup>**

Long-term liabilities amounted to R213 833 597, compared to R413 256 746 in the previous financial year, and are made up as follows:

|                    | <b>2006/07</b>      | <b>2005/06</b>      |
|--------------------|---------------------|---------------------|
|                    | <b>R</b>            | <b>R</b>            |
| External loans     | 213 833 597         | 258 622 959         |
| Provision for ABSA |                     |                     |
| Leaseback rental   | <u>0</u>            | <u>154 633 786</u>  |
|                    | <u>R213 833 597</u> | <u>R413 256 746</u> |

Long-term liabilities consequently decreased by R199,4 million, compared to the 2005/06 financial year, mainly as a result of the cessation of the long-term ABSA leaseback rental agreement.

#### **4.6.2 Non-Current Provisions**

##### **4.6.2.1 Provision for Post Retirement Benefits**

This Provision increased by R447 129 392 from R298 895 129 to R746 024 521 based on an actuarially assessed valuation as at 30 June 2007. The provision now fully covers the liability relating to post-retirement medical aid benefits.

##### **4.6.2.2 Provision for Rehabilitation of Landfill Sites**

Provision has been made for the costs relating to the rehabilitation of landfill sites situated at Arlington, Koedoeskloof and Ibhayi. The costs as determined were discounted to the present day costs of rehabilitating the tip sites by adjusting for inflation related increases and applying a discounting factor equivalent to the

---

<sup>5</sup> Long-term liabilities consist of mainly external loans repayable over a period of longer than one year after the balance sheet date.

average cost of borrowing. The discounted rehabilitation costs of landfill sites amounted to R71 545 345.

#### **4.7. Property, Plant and Equipment**

Property, plant and equipment include infrastructure, buildings, plant and equipment, and amounted to R3 966 145 658 compared to R3 165 617 250 in the 2005/06 financial year. This represents an increase of R800,5 million or 25%.

#### **4.8 Cash and Investments**

Investments amounted to R1 444 792 962, compared to R1 467 861 595 in the 2005/06 financial year. This represents a decrease of R23 million or 1.5%.

The total amount invested, however, contains certain monies earmarked for specific purposes as indicated below, over which Council has limited discretion.

The net monies available to Council are as follows:

|                                                               | <b>2006/07</b>       | <b>2005/06</b>       |
|---------------------------------------------------------------|----------------------|----------------------|
|                                                               | <b>R</b>             | <b>R</b>             |
| Investments                                                   | 1 444 792 962        | 1 467 861 595        |
| <b>Less: Monies earmarked for specific purposes:</b>          | <b>1 152 893 050</b> | <b>1 028 602 617</b> |
| Housing development fund                                      | 76 530 350           | 83 038 007           |
| Unspent Conditional Grants                                    | 462 970 099          | 473 419 238          |
| Capital Replacement Reserve                                   | 422 916 174          | 236 317 538          |
| Repayment of External Loans                                   | 18 763 885           | 26 370 082           |
| Self-Insurance Reserve                                        | 85 121 592           | 75 563 229           |
| Consumer Deposits                                             | 86 590 950           | 80 634 634           |
| Unspent RSC Levies Income                                     |                      | 53 259 889           |
| <b>Net amount available to Council to finance commitments</b> | <b>291 899 912</b>   | <b>439 258 978</b>   |
| Add: Call Investment Deposits                                 | 55 555 956           | 55 174 189           |
| : Bank Balances and cash                                      | 215 431 857          | 53 026 362           |
| <b>Total amount available to Council</b>                      | <b>562 887 725</b>   | <b>547 459 529</b>   |

#### 4.9 Debtors

Debtors amounted to R1 193 537 158 before deduction of the Provision for Doubtful Debts of R601 502 396.

The increase in debtors is a source of concern for the following main reasons:

- It diminishes the ability to spend on infrastructure development required for anticipated economic growth and to address service backlogs in the underdeveloped areas.
- It influences Council's credit rating and ability to raise loans on competitive terms.
- It limits the ability to budget for growth.
- It affects tariffs negatively, requiring higher than inflation increases.
- It influences the level of expenditure on the maintenance of assets.

The inability to collect outstanding debts timeously is reflected in the debtors' collection period. The situation is as follows:

##### 4.9.1 *Average Debtors' Collection Period for Electricity, Water, Refuse, Sewerage and Property Rates*

|                         |               |
|-------------------------|---------------|
| Debtors                 | 1 193 537 158 |
| Tariff Income and Rates | 2 186 328 593 |
| Number of Days          | 199           |
| Target                  | 55            |

The following calculation illustrates the amount unnecessarily tied up in debtors as at 30 June 2007:

$$\begin{array}{r}
 199-55 \text{ (days)} \\
 \hline
 199 \text{ (days)}
 \end{array}
 \times \text{R1 193 537 158} = \text{R863 665 079}$$

If the debtor's turnover ratio could be reduced to 55 days, an amount of R864 million will become available, which could be used for service delivery, infrastructure development and supporting more affordable tariffs, all of which will contribute towards making the Nelson Mandela Bay Metropolitan Municipality more attractive as an investment destination.

#### **4.10 Creditors**

Creditors amounted to R878 321 965, compared to R544 571 149 in the previous financial year. It should be noted that creditors are paid regularly.

### **5. OVERALL RESULTS AND COMMENTS**

The overall financial results are generally considered to be acceptable. In order to sustain this situation the maintenance of sound financial management practices is required as well as mitigating the risks that impact on financial sustainability by instituting appropriate measures to address such risks.

The present risks are essentially the following:

- Continued non-payment of accounts by debtors.
- The requirement to contain personnel costs.
- Non-compliance with sound financial management practices.
- Limited spending on the maintenance and renewal of infrastructure assets.
- Possible acceptance by the Municipality of unfunded mandates.

**“A5”**

**FINANCIAL STATEMENTS FOR  
THE FINANCIAL YEAR  
1 JULY 2006 TO 30 JUNE 2007**



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**

For the year ended

30 June 2007

I am responsible for the preparation of these annual financial statements, which are set out on pages 89 to 175, 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 24 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 the Act.

\_\_\_\_\_  
ADVOCATE J G RICHARDS – BA LLB  
MUNICIPAL MANAGER

\_\_\_\_\_  
Date

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

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**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2007**

|                                             | Note | 2007<br>R                   | Restated<br>2006<br>R       |
|---------------------------------------------|------|-----------------------------|-----------------------------|
| <b>NET ASSETS AND LIABILITIES</b>           |      |                             |                             |
| <b>Net Assets</b>                           |      | <b>4,190,306,004</b>        | <b>3,763,306,481</b>        |
| Housing Development Fund                    | 1    | 76,530,350                  | 83,038,007                  |
| Capital Replacement Reserve                 |      | 422,916,174                 | 236,317,538                 |
| Capitalisation Reserve                      |      | 1,161,615,188               | 1,276,374,971               |
| Government Grant Reserve                    |      | 1,206,890,781               | 685,371,949                 |
| Donations and Public Contributions Reserves |      | 214,531,463                 | 119,533,930                 |
| Self-Insurance Reserve                      |      | 85,121,592                  | 75,563,229                  |
| Accumulated Surplus                         |      | 1,022,700,456               | 1,287,106,857               |
| <b>Non-current liabilities</b>              |      | <b>1,050,181,062</b>        | <b>731,111,591</b>          |
| Long-term Liabilities                       | 2    | 213,833,597                 | 413,256,746                 |
| Non-current Provisions                      | 3    | 836,347,465                 | 317,854,845                 |
| <b>Current Liabilities</b>                  |      | <b>1,446,646,899</b>        | <b>1,124,995,103</b>        |
| Consumer deposits                           | 4    | 86,590,950                  | 80,634,634                  |
| Creditors                                   | 5    | 878,321,965                 | 544,571,149                 |
| Unspent Conditional Grants and Receipts     | 6    | 462,970,099                 | 473,419,238                 |
| Current Portion of Long-term Liabilities    | 2    | 18,763,885                  | 26,370,082                  |
| <b>Total Net Assets and Liabilities</b>     |      | <b><u>6,687,133,965</u></b> | <b><u>5,619,413,175</u></b> |
| <b>ASSETS</b>                               |      |                             |                             |
| <b>Non-current assets</b>                   |      | <b>5,628,553,564</b>        | <b>4,766,715,055</b>        |
| Property, Plant and Equipment               | 7    | 3,966,145,658               | 3,165,617,250               |
| Intangible Assets                           | 8    | 147,365,308                 | 87,589,576                  |
| Investments                                 | 10   | 1,444,792,962               | 1,467,861,595               |
| Long-term Receivables                       | 11   | 70,249,636                  | 45,646,634                  |
| <b>Current Assets</b>                       |      | <b>1,058,580,401</b>        | <b>852,698,120</b>          |
| Inventory                                   | 12   | 78,981,295                  | 66,033,978                  |
| Consumer debtors                            | 13   | 592,034,762                 | 582,128,177                 |
| Other Debtors                               | 14   | 102,524,522                 | 89,463,592                  |
| VAT                                         | 15   | 11,945,743                  | 3,822,843                   |
| Current portion of long-term receivables    | 11   | 2,106,266                   | 3,048,979                   |
| Call investment deposits                    | 16   | 55,555,956                  | 55,174,189                  |
| Bank balances and cash                      | 17   | 215,431,857                 | 53,026,362                  |
| <b>Total Assets</b>                         |      | <b><u>6,687,133,965</u></b> | <b><u>5,619,413,175</u></b> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2007**

| Budget                                                      |                      |                                                        | Actual               |                       |
|-------------------------------------------------------------|----------------------|--------------------------------------------------------|----------------------|-----------------------|
| 2006<br>R                                                   | 2007<br>R            |                                                        | 2007<br>R            | Restated<br>2006<br>R |
| <b>REVENUE</b>                                              |                      |                                                        |                      |                       |
| 506,790,170                                                 | 541,872,790          | Property rates                                         | 18 533,190,365       | 498,866,544           |
| 1,558,150,810                                               | 1,636,668,000        | Service Charges                                        | 19 1,653,138,228     | 1,573,735,823         |
| 60,444,110                                                  | 0                    | Regional Services Levies - turnover                    | 20 0                 | 68,692,001            |
| 177,238,490                                                 | 0                    | Regional Services Levies - remuneration                | 20 0                 | 211,586,760           |
| 152,855,790                                                 | 134,951,780          | Interest earned - external investments                 | 141,611,910          | 124,734,548           |
| 44,660,000                                                  | 55,710,000           | Interest earned - outstanding debtors                  | 77,367,970           | 78,360,901            |
| 16,366,120                                                  | 21,666,190           | Fines                                                  | 17,368,619           | 13,227,218            |
| 80,902,340                                                  | 6,371,520            | Licences and Permits                                   | 6,409,122            | 57,508,895            |
| 281,124,860                                                 | 567,391,660          | Government Grants and Subsidies                        | 21 1,251,855,724     | 521,589,499           |
| 83,708,240                                                  | 183,111,040          | Other Income                                           | 22 218,536,032       | 139,682,627           |
| 207,150                                                     | 21,300               | Gains on the disposal of property, plant and equipment | 593,785              | 912,465               |
| 0                                                           | 6,246,030            | Contributions: Other                                   | 877,738,544          | 257,455,700           |
| <b>2,962,448,080</b>                                        | <b>3,154,010,310</b> | <b>Total Revenue</b>                                   | <b>4,777,810,297</b> | <b>3,546,352,981</b>  |
| <b>EXPENDITURE</b>                                          |                      |                                                        |                      |                       |
| 952,948,140                                                 | 1,025,708,420        | Employee related costs                                 | 23 1,036,653,107     | 932,818,668           |
| 32,543,350                                                  | 37,128,850           | Remuneration of Councillors                            | 24 35,335,941        | 29,324,731            |
| 603,520                                                     | 2,134,700            | Bad debts                                              | 19,604,984           | 7,926,420             |
| 2,073,360                                                   | 2,177,030            | Collection costs                                       | 2,061,166            | 1,949,931             |
| 196,370,600                                                 | 212,002,090          | Depreciation                                           | 266,587,719          | 192,016,619           |
| 247,004,290                                                 | 278,089,900          | Repairs and Maintenance                                | 307,142,106          | 257,732,667           |
| 35,604,460                                                  | 28,430,730           | Interest paid                                          | 25 24,183,338        | 27,252,118            |
| 616,471,490                                                 | 676,654,920          | Bulk purchases                                         | 26 666,322,864       | 601,176,927           |
| 6,096,180                                                   | 13,507,790           | Grants and subsidies paid                              | 27 42,970,595        | 41,108,313            |
| 374,002,150                                                 | 351,614,840          | General Expenses                                       | 629,994,135          | 551,599,188           |
| 498,730,540                                                 | 526,561,040          | Contributions To/(From) Provisions                     | 1,259,785,579        | 468,759,830           |
| <b>2,962,448,080</b>                                        | <b>3,154,010,310</b> | <b>Total Expenditure</b>                               | <b>4,290,641,532</b> | <b>3,111,665,412</b>  |
|                                                             |                      | <b>Surplus for the year</b>                            | <b>487,168,764</b>   | <b>434,687,569</b>    |
| <b>Refer to Appendix E(1) for explanation of variations</b> |                      |                                                        |                      |                       |

| NELSON MANDELA BAY MUNICIPALITY                                    |                                |                                   |                           |                             |                                                     |                           |                                      |               |
|--------------------------------------------------------------------|--------------------------------|-----------------------------------|---------------------------|-----------------------------|-----------------------------------------------------|---------------------------|--------------------------------------|---------------|
| STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2007 |                                |                                   |                           |                             |                                                     |                           |                                      |               |
|                                                                    | Housing<br>Development<br>Fund | Capital<br>Replacement<br>Reserve | Capitilisation<br>Reserve | Government<br>Grant Reserve | Donations and<br>Public<br>Contributions<br>Reserve | Self-Insurance<br>Reserve | Accumulated<br>Surplus/<br>(Deficit) | Total         |
|                                                                    | R                              | R                                 | R                         | R                           | R                                                   | R                         | R                                    | R             |
| <b>2006</b>                                                        |                                |                                   |                           |                             |                                                     |                           |                                      |               |
| Balance at 1 July 2005                                             | 80,329,448                     | 228,489,429                       | 2,824,232,119             | 378,977,220                 | 27,414,302                                          | 59,810,273                | 72,298,053                           | 3,671,550,844 |
| Correction of Error (Note 36)                                      | (9,112,575)                    | 890,925                           | (1,396,500,398)           | (30,100,835)                | 64,390,541                                          | -                         | 1,010,778,381                        | (359,653,962) |
| Change in accounting policy                                        |                                |                                   |                           |                             |                                                     |                           | 16,722,031                           | 16,722,031    |
| <b>Restated Balance</b>                                            | 71,216,873                     | 229,380,354                       | 1,427,731,721             | 348,876,385                 | 91,804,843                                          | 59,810,273                | 1,099,798,465                        | 3,328,618,912 |
| Surplus/(Deficit) for the year                                     |                                |                                   |                           |                             |                                                     |                           | 434,687,569                          | 434,687,569   |
| Transfer to CRR                                                    |                                | 239,933,229                       |                           |                             |                                                     |                           | (239,933,229)                        |               |
| Property, plant and equipment purchased                            |                                | (232,996,045)                     |                           |                             |                                                     |                           | 232,996,045                          |               |
| Contribution to Reserve                                            |                                |                                   | 0                         | 343,074,620                 | 27,729,087                                          |                           | (343,074,620)                        | 0             |
| Capital Grants used to purchase PPE                                |                                |                                   |                           |                             |                                                     | 27,154,220                | (27,729,087)                         | 0             |
| Donated/Contributed PPE                                            |                                |                                   |                           |                             |                                                     | (11,401,264)              | (11,401,264)                         | 0             |
| Contribution to Insurance Reserve                                  |                                |                                   |                           |                             |                                                     |                           | (11,821,135)                         |               |
| Insurance claims processed                                         |                                |                                   |                           |                             |                                                     |                           | 116,654,449                          |               |
| Transfer to Housing Development Fund                               | 11,821,135                     |                                   | (110,074,296)             | (6,580,152)                 |                                                     |                           | (13,707)                             |               |
| Offsetting of depreciation                                         |                                |                                   | 12,610                    | 1,097                       |                                                     |                           | 41,295,064                           |               |
| Additional Depreciation Reversal                                   |                                |                                   | (41,295,064)              |                             |                                                     |                           |                                      |               |
| Asset Disposals                                                    |                                | 236,317,538                       | 1,276,374,971             | 685,371,949                 | 119,533,930                                         | 75,563,229                | 1,287,106,857                        | 3,763,306,481 |
| <b>Balance at 30 June 2006</b>                                     | 83,038,007                     | 236,317,538                       | 1,276,374,971             | 685,371,949                 | 119,533,930                                         | 75,563,229                | 1,287,106,857                        | 3,763,306,481 |
| <b>2007</b>                                                        |                                |                                   |                           |                             |                                                     |                           |                                      |               |
| <b>Opening Balance</b>                                             | 83,038,007                     | 236,317,538                       | 1,276,374,971             | 685,371,949                 | 119,533,930                                         | 75,563,229                | 1,287,106,857                        | 3,763,306,481 |
| Surplus/(Deficit) for the year                                     |                                |                                   |                           |                             |                                                     |                           | 487,168,764                          | 487,168,764   |
| Surplus transferred to Statement of Financial Performance          |                                |                                   |                           |                             |                                                     |                           | (53,259,889)                         | (53,259,889)  |
| Transfer to CRR                                                    |                                | 509,829,166                       |                           |                             |                                                     |                           | 323,230,530                          | 0             |
| Property, plant and equipment purchased                            |                                | (323,230,530)                     |                           |                             |                                                     |                           | (661,283,754)                        | 0             |
| Capital Grants used to purchase PPE                                |                                |                                   |                           | 561,283,754                 | 95,412,774                                          |                           | (95,412,774)                         | 0             |
| Donated/Contributed PPE                                            |                                |                                   |                           |                             |                                                     |                           | (19,935,872)                         | 0             |
| Contribution to Insurance Reserve                                  |                                |                                   |                           |                             |                                                     | 19,935,872                | 10,377,509                           | 0             |
| Insurance claims processed                                         |                                |                                   |                           |                             |                                                     | (10,377,509)              | 6,507,657                            | 0             |
| Transfer from Housing Development Fund                             | (6,507,657)                    |                                   | (103,566,940)             | (41,847,107)                | (1,118,814)                                         |                           | 146,472,861                          | 0             |
| Offsetting of depreciation                                         |                                |                                   | (20,441,134)              | 2,082,185                   | 703,573                                             |                           | 506,519                              | (17,148,857)  |
| Asset Disposals*                                                   |                                |                                   | 9,188,291                 |                             |                                                     |                           | 1,051,214                            | 10,239,505    |
| Additional Depreciation Reversal*                                  |                                |                                   | 1,161,615,188             | 1,206,890,781               | 214,531,463                                         | 85,121,592                | 1,022,700,456                        | 4,190,306,004 |
| <b>Balance at 30 June 2007</b>                                     | 76,530,350                     | 422,916,174                       | 1,161,615,188             | 1,206,890,781               | 214,531,463                                         | 85,121,592                | 1,022,700,456                        | 4,190,306,004 |

\* The Asset Disposals relate to assets disposed at no value resulting in the amounts having no impact on the Statement of Financial Performance, therefore the future depreciation reserves were written off.

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|                                                             | Note | 2007<br>R             | 2006<br>R             |
|-------------------------------------------------------------|------|-----------------------|-----------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                  |      |                       |                       |
| Cash receipts from ratepayers, government and other         |      | 3 880 149 585         | 3 527 708 807         |
| Cash paid to suppliers and employees                        |      | 3 042 632 866         | 3 084 692 868         |
| Cash generated from operations                              | 28   | 837 516 719           | 443 015 939           |
| Interest received                                           |      | 218 979 879           | 203 095 449           |
| Interest paid                                               | 25   | ( 24 183 338)         | ( 27 252 118)         |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                   |      | <u>1 032 313 260</u>  | <u>618 859 270</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |                       |                       |
| Purchase of property, plant and equipment                   |      | ( 887 971 154)        | ( 541 186 046)        |
| Disposal of property, plant and equipment                   |      | 28 957 564            | 26 603 284            |
| Purchase of intangible assets                               |      | ( 87 372 758)         | -                     |
| (Increase)/Decrease in Investment Properties                |      | -                     | -                     |
| (Increase)/Decrease in non-current receivables              |      | ( 24 603 002)         | 4 076 903             |
| (Increase)/Decrease in non-current investments              |      | 23 068 633            | ( 61 037 421)         |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>                   |      | <u>( 947 920 717)</u> | <u>( 571 543 280)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |      |                       |                       |
| (Decrease)/ Increase in Long-term loans (External)          | 30   | ( 199 423 149)        | ( 36 735 750)         |
| (Decrease) in Non-current provisions                        |      | ( 36 109 908)         | ( 39 008 437)         |
| Increase in funds and reserves                              |      | 313 927 776           | 9 499 549             |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                   |      | <u>78 394 719</u>     | <u>( 66 244 638)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> |      | <u>162 787 262</u>    | <u>( 18 928 648)</u>  |
| Cash and cash equivalents at the beginning of the year      |      | 108 200 551           | 127 129 199           |
| Cash and cash equivalents at the end of the year            | 29   | 270 987 813           | 108 200 551           |

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

**1. BASIS OF PRESENTATION**

The annual financial statements have been prepared 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.

The standards are summarised as follows:

|          |                                                                          |
|----------|--------------------------------------------------------------------------|
| GRAP 1   | Presentation of Financial Statements                                     |
| GRAP 2   | Cash Flow Statements                                                     |
| GRAP 3   | Accounting Policies, Changes in Accounting Estimates and Errors          |
| GAMAP 4  | The Effects of Changes in Foreign Exchange Rates                         |
| GAMAP 6  | Consolidated financial statements and accounting for controlled entities |
| GAMAP 7  | Accounting for Investments in Associates                                 |
| GAMAP 8  | Financial Reporting of Interests in Joint Ventures                       |
| GAMAP 9  | Revenue                                                                  |
| GAMAP 12 | Inventories                                                              |
| GAMAP 17 | Property, Plant and Equipment                                            |
| GAMAP 19 | Provisions, Contingent Liabilities and Contingent Assets                 |
| IFRS 1   | First-time Adoption of International Financial Reporting Standards       |
| IFRS 7   | Financial Instruments: Disclosures                                       |
| IAS 7    | Cash Flow Statements                                                     |
| IAS 17   | Leases                                                                   |
| IAS 19   | Employee benefits                                                        |
| IAS 20   | Accounting for Government Grants and Disclosure of Government Assistance |
| IAS 32   | Financial Instruments: Presentation                                      |
| IAS 38   | Intangible Assets                                                        |
| IAS 39   | Financial Instruments: Recognition and Measurement                       |
| SIC 32   | Financial Instruments: Recognition and Measurement                       |

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.

Exemption from complying with the following standards was obtained from the Minister of Finance until 2007/08 financial year in accordance with Gazette no. 30013 dated 29 June 2007.

| <b>Standard no.</b> | <b>Standard title</b>                                           | <b>GRAP, GAMAP and/or SA GAAP requirement(s), exempted in terms of General notice 552 of 2007, that have been adopted early</b>           |
|---------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| GRAP 03             | Accounting policies, changes in accounting estimates and errors | ▪ Identification and impact of GRAP standards that have been issued but are not yet effective (GRAP 3.30 – 31)                            |
|                     |                                                                 | ▪ Changes in accounting policies (GRAP 3.14, 19)                                                                                          |
| GAMAP 09            | Revenue                                                         | ▪ Initial measurement of fair value; discounting all future receipts using an imputed rate of return (GAMAP 9.12 and SAICA Circular 9/06) |
| GAMAP 12            | Inventories                                                     | ▪ The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP17.               |
|                     |                                                                 | ▪ The entire standard as far as it relates to water stock that was not purchased by the Municipality.                                     |
| GAMAP 17            | Property, plant and equipment                                   | ▪ Review of useful life of items of PPE recognised in the annual financial statements (GAMAP 17.69 – 61, 77)                              |
|                     |                                                                 | ▪ Review of depreciation method applied to PPE recognised in the annual financial statements (GAMAP 17.62, 77)                            |
|                     |                                                                 | ▪ Impairment of non-cash generating assets (GAMAP 17.64 – 69, 75(e)(v) - (vi))                                                            |
|                     |                                                                 | ▪ Impairment of cash generating assets (GAMAP 17.63, 75(e)(v) – (vi))                                                                     |
| IAS 11 (AC 109)     | Construction contracts                                          | ▪ Entire standard                                                                                                                         |
| IAS 14 (AC 115)     | Segment reporting                                               | ▪ Entire standard                                                                                                                         |
| 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 agreement (IAS 17.33 – 34 and 50 – 51, SAICA Circular 12/06.8 – 11)                                                                                                                                           |
| IAS 19<br>(AC 116) | Employee benefits                                            | <ul style="list-style-type: none"> <li>Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and defined benefit obligation disclosed by narrative information (IAS 19.29, 48 – 119 and 120A(c) – (q))</li> </ul> |
| IAS 20<br>(AC 134) | Accounting for government grants and disclosure              | <ul style="list-style-type: none"> <li>Entire standard, excluding paragraphs 24 and 26, replaced by GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – 46.</li> </ul>                                                                                                                      |
| IAS 36<br>(AC 128) | Impairment of assets                                         | <ul style="list-style-type: none"> <li>Entire standard</li> </ul>                                                                                                                                                                                                                |
| IAS 38<br>(AC 129) | Intangible assets                                            | <ul style="list-style-type: none"> <li>The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32) and all other costs are expensed</li> </ul>                                                                    |
| IAS 39<br>(AC 133) | Financial instruments: recognition and measurement           | <ul style="list-style-type: none"> <li>Initially measuring financial assets and liabilities at fair value (IAS 39.43, AG79, AG64 – AG65 and SAICA Circular 9/06)</li> </ul>                                                                                                      |
| IAS 40<br>(AC 135) | Investment property                                          | <ul style="list-style-type: none"> <li>The entire standard to the extent that the property is accounted for in terms of GAMAP 17</li> </ul>                                                                                                                                      |
|                    |                                                              | <ul style="list-style-type: none"> <li>Disclosure of the fair value of investment property if the cost model is applied and where the Municipality has recognised the investment property in terms of this standard (IAS 40.79(e)(i) – (iii))</li> </ul>                         |
| IFRS 3<br>(AC 140) | Business combinations                                        | <ul style="list-style-type: none"> <li>Entire standard</li> </ul>                                                                                                                                                                                                                |
| IFRS 5<br>(AC 142) | Non-current assets held for sale and discontinued operations | <ul style="list-style-type: none"> <li>Classification, measurement and disclosure of non-current assets held for sale (IFRS 5.6 – 29 (in so far as it relates to non-current assets held for sale) and 38 – 42)</li> </ul>                                                       |
| IFRS 7<br>(AC 144) | Financial instruments: disclosures                           | <ul style="list-style-type: none"> <li>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</li> </ul>                                                              |
| IFRS 8             | Operating Segments                                           | <ul style="list-style-type: none"> <li>Entity Standard</li> </ul>                                                                                                                                                                                                                |

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General notice 552 of 2007, exempted compliance with certain of the abovementioned 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 financial statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, is disclosed below.

## **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.

## **4. HOUSING DEVELOPMENT FUND**

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

Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

## **5. RESERVES**

### **5.1 Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. The CRR can only be utilised to finance items of property, plant and equipment and investment property.

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

### **5.2 Capitalisation Reserve**

On the implementation of GAMAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, have been transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive (budget circular) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

### **5.3 Government Grant Reserve**

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

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

### **5.4 Donations and Public Contributions Reserve**

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of

property, plant and equipment financed from donations and public contributions.

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

### **5.5 Self-Insurance Reserve**

A Self-Insurance Fund exists to provide cover for selected risks, including fire, storm, workmen's compensation, public liability and motor vehicles. The fund is re-insured externally to cover major losses. Premiums are charged to the respective Directorates at market related rates, taking into account past experience of claims and replacement value of the insured assets.

The fund covers the first R10 000 000 in respect of fire insurance, R5 000 000 in respect of public liability insurance and R3 000 000 in respect of fidelity guarantee insurance, of any one claim.

The maximum aggregate exposure during any one year in respect of public liability insurance amounts to R10 000 000 and in respect of fidelity guarantee insurance amounts to R17 000 000. There is no maximum aggregate exposure in respect of fire insurance.

Claims in excess of the above maximum aggregate exposures are covered by re-insurance.

## **6. PROPERTY, PLANT AND EQUIPMENT**

**6.1** Property, plant and equipment are stated at cost, less accumulated depreciation. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated, as it is deemed to have an indefinite life.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are: site preparation, delivery and handling costs, and professional fees.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

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

The Municipality has adopted a capitalisation threshold whereby all expenditure below the threshold is expensed when incurred. The threshold is currently R10 000.

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.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. In determining depreciation, the residual values of assets (specifically vehicles, office equipment and furniture and fittings) are not taken into account, as the Municipality uses these assets in its operations beyond its estimated useful life. The annual depreciation rates are based on the following estimated asset lives:

|                         | <u>Years</u> | <u>Other</u>                       | <u>Years</u> |
|-------------------------|--------------|------------------------------------|--------------|
| <b>Infrastructure</b>   |              |                                    |              |
| 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           |
|                         |              | Bins and containers                | 5            |
|                         |              | Specialised plant and equipment    | 10-15        |
| <b>Community</b>        |              |                                    |              |
| Buildings               | 30           | Other items of plant and equipment | 2-5          |
| Recreational Facilities | 20-30        | Landfill Sites                     | 45-50        |
| Security                | 5            |                                    |              |

## 6.2 Review of useful lives

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, the useful lives of assets have not been reviewed. The current year's accounting policy agrees with that applied in the previous financial year.

## 6.3 Review of Depreciation Method

In accordance with the exemptions contained in Gazette no.30013 of 29 June 2007, the depreciation method was not reviewed.

The current year's accounting policy is in line with that applied in the previous financial year.

## 6.4 Impairment of cash and non-cash generating assets exemptions

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, the assets in question were not assessed for possible impairment. This is in line with the account policy applied in the previous financial year.

## **7. INTANGIBLE ASSETS**

An intangible asset is defined as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods and services, for rental to others or for administrative purposes. Intangible assets have been treated in accordance with the provisions of IAS38, "Intangible Assets". Intangible assets are initially recorded at their cost price and subsequently amortised over their expected useful lives. The intangible assets under the control of the Municipality are amortised according to the straight-line method.

The aforementioned policy is applied in line with the exemptions contained in Gazette No. 30013 of 29 June 2007.

## **8. REVALUATION OF LAND AND BUILDINGS**

Land and buildings were not revalued during the year. It will be revalued as part of the general property valuation process being conducted over the next financial year. Council is required to undertake a general valuation of properties in terms of the Property Rates Act (Act no. 6 of 2004).

## **9. 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 investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.



The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

### **9.1 Investments in Financial Instruments**

The accounting policy applied is in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

## **10. INVENTORIES**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost or net realisable value. In general, the basis of determining cost is the first-in, first-out (FIFO) method.

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.

The cost of water purchased and not yet sold in the statement of financial position comprises the purchase price, import duties and other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors that determine the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, the aforementioned policy is in line with that applied in the previous financial year.

## **11. ACCOUNTS RECEIVABLE**

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

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, the aforementioned policy is in line with that applied in the previous financial year.

## **12. TRADE CREDITORS**

Trade creditors are stated at their nominal value, inclusive of outstanding cheques.

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, the aforementioned policy is in line with that applied in the previous financial year.

## **13. REVENUE RECOGNITION**

### **13.1 Revenue from Exchange Transactions**

Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

In accordance with GAMAP 9, revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Service charges relating to electricity and water are based on consumption. Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly. All electricity and water meters within and outside the municipal boundary are read and billed monthly.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Interest and rentals are recognised on a time proportion basis.

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

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

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

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

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

### **13.2 Revenue from Non-Exchange Transactions**

Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned.

Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is recognised when collected.

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

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

Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

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.

The current year's accounting policy is in line with that applied in the previous financial year.

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, revenue has been initially recognised at cost.

## **14. 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.

### **14.1 Unutilised Conditional Grants**

Unutilised conditional grants are reflected on the Statement of Financial Position as a creditor. They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

The cash, which backs up the creditor, is invested until it is utilised. Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is in the City's interest, it is recognised as interest earned in the Statement of Financial Position. Whenever an asset is purchased out of an unutilised conditional grant, an amount equal to the cost price of the asset is transferred from Unutilised Capital Receipts to the Statement of Financial Performance as revenue. Thereafter, an equal amount is transferred on the Statement of Changes in Net Assets to the Donations and Public Contributions Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of Unutilised Capital Receipts. The reserve is used to offset depreciation charged on assets purchased out of Unutilised Capital Receipts.

The policy applied in the current financial year is in accordance with the exemptions contained in Gazette no.30013 of June 2007. The current year's policy is in line with that applied in the previous financial year.

## **15. PROVISIONS**

Provisions are recognised when the Municipality has a present obligation (legal or constructive) 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 of the amount of the obligation. Provisions are reviewed at reporting sheet date and adjusted to reflect the current best estimate.

### **15.1 Provision for Post-Retirement Benefits**

A provision is maintained in respect of the liability to employees relating to post-retirement benefits such as medical aid contributions. Council has adopted a strategy that future retirement liabilities be funded over a fifteen-year period.

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.

Defined contribution plans are post-employment plans under which an entity pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient funds to pay all employee benefits relating to employee service in the current and prior periods.

The current year's policy is in accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007. The current year's policy is in line with that applied in the previous year.

## **15.2 Provision for Rehabilitation of Refuse Landfill Sites**

The applicable GAMAP standard states that a provision should be recognised where there is a present obligation to rehabilitate sites.

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5.6% and discounted to the present value at the average borrowing cost of 10.23%.

## **15.3 Gratuity Provision**

A provision in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund is maintained.

## **16. PROVISION FOR DOUBTFUL DEBTS**

The provision is equivalent to 100% of amounts owing to Council older than 90 days. The provision currently amounts to R601 502 396. In accordance with GRAP the Provision for Doubtful Debts has been deducted from the amount outstanding by debtors at 30 June 2007.

## **17. PROVISION FOR OBSOLETE INVENTORY**

A provision is maintained in lieu of obsolete inventory. The level of the provision for obsolete inventory is maintained at 5% of the total value of inventory holdings.

## **18. 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 and deposits held on call with banks.

#### **19. 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.

#### **20. 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 or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **21. 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.



## **22. COMPARATIVE INFORMATION**

### **22.1 Current year comparatives:**

Budgeted amounts have been included in the annual financial statements for the current and previous financial years.

### **22.2 Prior year comparatives:**

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

## **23. INVESTMENT PROPERTY**

The accounting policy applied is in accordance with the exemptions in Gazette No. 30013 of 29 June 2007. The current year's accounting policy is in line with that applied in the previous financial year.

Investment property, which is property held to earn rental revenue or for capital appreciation, is stated at cost and may be included in PPE in line with the exemption granted as per Gazette 30013 dated 29 June 2007.

## **24. LEASES**

### **24.1 The Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital

repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

#### **24.2 The Municipality as Lessor**

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

Rental Income from operating leases is recognised as they become due.

In accordance with the exemptions contained in Gazette no. 30013 of 29 June 2007, operating lease payments/receipts have been recognised on the basis of the cashflows in the lease agreements.

The current year's policy is in line with that applied in the previous financial year.

#### **25. BORROWING COSTS**

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

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                         | 2007              | Restated<br>2006  |
|-----------------------------------------|-------------------|-------------------|
|                                         | R                 | R                 |
| <b>1. Housing Development Fund</b>      |                   |                   |
| Housing Infrastructure Development Fund | 4,574,230         | 4,240,035         |
| Housing Revolving Fund                  | 70,612,023        | 73,891,203        |
| Housing Reserves                        | 1,344,097         | 4,906,768         |
| <b>Total Housing Development Fund</b>   | <b>76,530,350</b> | <b>83,038,007</b> |

The Housing development fund is represented by investments.

*Movements in funds are reconciled as follows:*

**Housing Infrastructure Development Fund**

|                                             |                  |                  |
|---------------------------------------------|------------------|------------------|
| <b>Balance at the beginning of the year</b> | <b>4,240,035</b> | <b>3,977,740</b> |
| Contributions received                      | 0                | 146,395          |
| Interest received                           | 334,195          | 115,900          |
| <b>Balance at the end of the year</b>       | <b>4,574,230</b> | <b>4,240,035</b> |

The purpose of the Housing Infrastructure Development Fund is to provide funding for housing infrastructural developments. Contributions consist of cash received from the Provincial Housing Board.

**Housing Revolving Fund**

|                                                        |                   |                   |
|--------------------------------------------------------|-------------------|-------------------|
| <b>Balance at the beginning of the year</b>            | <b>73,891,203</b> | <b>70,946,203</b> |
| Correction of Error (see Note 36.3)                    | (8,221,650)       |                   |
| <b>Restated Balance at beginning of year</b>           | <b>73,891,203</b> | <b>62,724,553</b> |
| Contributions received                                 | 1,649,369         | 5,076,066         |
| Interest received                                      | 8,060,375         | 6,090,585         |
| Cash utilised to finance property, plant and equipment | (12,988,924)      | -                 |
| <b>Balance at the end of the year</b>                  | <b>70,612,023</b> | <b>73,891,203</b> |

The purpose of the Housing Revolving Fund is to provide bridging financing for Provincial Housing Board approved housing developments. Contributions consist of cash received from the Provincial Housing Board.

**HOUSING RESERVES**

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Community Facilities                  |                  | 0                |
| Replacement and Renewals              |                  | 0                |
| Capital Discount Scheme               | 1,344,097        | 4,906,768        |
| <b>Balance at the end of the year</b> | <b>1,344,097</b> | <b>4,906,768</b> |

**Community Facilities**

|                                             |          |
|---------------------------------------------|----------|
| <b>Balance at the beginning of the year</b> | <b>0</b> |
| Contribution for the year                   | 23,969   |
| Interest                                    | 452      |
| Transfer to Asset Financing Fund            | (24,422) |
| <b>Balance at the end of the year</b>       | <b>0</b> |

**Replacement and Renewals**

|                                              |                |
|----------------------------------------------|----------------|
| <b>Balance at the beginning of the year</b>  | <b>890,925</b> |
| Correction of Error (see Note 36.3)          | (890,925)      |
| <b>Restated Balance at beginning of year</b> | <b>0</b>       |

**Capital Discount Scheme**

|                                             |                  |                  |
|---------------------------------------------|------------------|------------------|
| <b>Balance at the beginning of the year</b> | <b>4,906,768</b> | <b>4,514,579</b> |
| Interest                                    | 437,328          | 392,189          |
| Expenditure funded during the year          | (4,000,000)      | -                |
| <b>Balance at the end of the year</b>       | <b>1,344,097</b> | <b>4,906,768</b> |

The housing reserves are required in terms of National Housing Fund regulations. The housing reserves can only be utilised to maintain housing stock.

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**2. LONG-TERM LIABILITIES**

|                                                                  | 2007<br>R          | Restated<br>2006<br>R |
|------------------------------------------------------------------|--------------------|-----------------------|
| Local Registered Stock Loans                                     | 26,000,000         | 26,000,000            |
| Development Bank of Southern Africa                              | 206,597,482        | 226,382,719           |
| Amalgamated Banks of South Africa                                | 0                  | 2,540,322             |
| Amalgamated Banks of South Africa - Long-term Lease              | 0                  | 30,000,000            |
| Cape Joint Pension Fund                                          | 0                  | 70,000                |
| External Loans                                                   | 232,597,482        | 284,993,041           |
| Amalgamated Banks of South Africa - Leaseback Rental             | 0                  | 154,633,786           |
| Post-retirement Benefits                                         | 0                  | 298,895,129           |
| Post-retirement Benefits (Transferred to Non-current provisions) | 0                  | (298,895,129)         |
|                                                                  | 232,597,482        | 439,626,828           |
| Less : Current portion transferred to current liabilities        | 18,763,885         | 26,370,082            |
| Development Bank of Southern Africa                              | 16,763,885         | 23,829,760            |
| Registered Stock Loans                                           | 2,000,000          | 0                     |
| Amalgamated Banks of South Africa                                | 0                  | 2,540,322             |
|                                                                  | <b>213,833,597</b> | <b>413,256,746</b>    |

Refer to Appendix A for more detail on long-term liabilities.

**LOCAL REGISTERED STOCK**

Bear interest at rates between 16.40% and 17.55% per annum and are redeemable within one to four years

**ABSA**

These are structured finance loans repayable over ten years and were taken up during 1996/97. The ABSA loan is coupled to a sale and lease-back agreement of a gas turbine at Munelek. The Lease was repaid on 30 September 2006 during the 2006/07 financial year. (Refer Note 7.)

**DBSA**

Various loans were consolidated into one single loan amounting to R238 297 599 with effect from 30 September 2005, repayable over ten years in twenty half-yearly instalments, including accrued interest. There are two choices of variable interest rate linked to the six month JIBAR or to the three month JIBAR and a fixed interest rate linked to Government Bond R157. From 1 October 2005 to 30 September 2006, the interest was calculated linked to the six month JIBAR, but on 1 October 2006 the interest rate was fixed, linked to the Government Bond R157 at 9.38%. Council has the right to amend the interest rate between variable or fixed.

**CAPE JOINT PENSION FUND**

The loan was taken up during 1996/97 bearing interest at the rate of 11.5% per annum and was repaid on 31 December 2006

**POST-RETIREMENT BENEFIT PROVISION**

The 2005/06 balance in the amount of R298 895 129 was restated in respect of Post-retirement Benefits and is now included under Non-current Provisions for classification purposes.

**3. NON-CURRENT PROVISIONS**

|                                          |                    |                    |
|------------------------------------------|--------------------|--------------------|
| Gratuity Provision                       | 18,777,599         | 18,959,716         |
| Post-retirement Benefits (Refer Note 2.) | 746,024,521        | 298,895,129        |
| Rehabilitation of Landfill sites         | 71,545,345         | 0                  |
| <b>Total Non-Current Provisions</b>      | <b>836,347,465</b> | <b>317,854,845</b> |

**Gratuity Provision**

This provision is in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund.

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| <b>Balance at beginning of year</b> | 18,959,716        | 20,000,000        |
| Contributions to provision          | 2,076,740         | 4,239,668         |
| Expenditure incurred                | (2,258,858)       | (5,279,952)       |
| <b>Balance at end of year</b>       | <b>18,777,599</b> | <b>18,959,716</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 2007<br>R          | Restated<br>2006<br>R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------|
| <b>3. NON-CURRENT PROVISIONS (continued)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                    |                       |
| <b>Post-retirement Benefits</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                    |                       |
| The past service liability in respect of post-retirement benefits relates to ill health retirements and medical aid contributions and has been actuarially assessed at R746 million.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                    |                       |
| <b>Balance at beginning of year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 298,895,129        | 275,363,958           |
| Contributions to provision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 480,980,442        | 57,259,656            |
| Expenditure incurred                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | (33,851,050)       | (33,728,485)          |
| <b>Balance at end of year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>746,024,521</b> | <b>298,895,129</b>    |
| <b>Rehabilitation of landfill sites</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                    |                       |
| In terms of the licencing conditions of the landfill refuse sites, Council will incur rehabilitation costs of R20 595 651 for the Arlington Tip site, R6 870 263 for the Koedoeskloof Tip site and R44 079 431 for the Ibhayi Tip site determined at net present value to restore the sites at the end of their useful lives estimated to be in 2057, 2052 and 2007 respectively. Squatters are currently occupying the Ibhayi Landfill site that is already closed as a tip site. It is envisaged that the squatters will be removed by the end of 2010 in order to restore the site. Provision has been made for the rehabilitation of the landfill sites based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5.6% and discounted to the present value at the average borrowing cost of 10.23%. |                    |                       |
| Comparative landfill rehabilitation figures for the 2006 year are not disclosed as no reliable estimate could be made, based on the available information at the time the financial statements were compiled.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                    |                       |
| <b>Balance at beginning of year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 0                  | 0                     |
| Contributions to provision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 71,545,345         | 0                     |
| Expenditure incurred                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 0                  | 0                     |
| <b>Balance at end of year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>71,545,345</b>  | <b>0</b>              |
| <b>4. CONSUMER DEPOSITS</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                    |                       |
| Electricity and Water                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 85,277,865         | 79,745,847            |
| Interest Paid                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1,313,085          | 888,787               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>86,590,950</b>  | <b>80,634,634</b>     |
| <b>Guarantees held in lieu of Electricity and Water Deposits</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>1,980,247</b>   | <b>2,281,500</b>      |
| <b>5. CREDITORS</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                    |                       |
| Trade creditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 748,552,027        | 468,898,402           |
| Payments Received in Advance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 21,109,790         | 0                     |
| Staff leave                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 90,597,613         | 70,059,084            |
| Other creditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 2,850,445          | 5,613,663             |
| Retentions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 15,212,089         | 0                     |
| <b>Total Creditors</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>878,321,965</b> | <b>544,571,149</b>    |

It was not considered necessary to discount the staff leave pay accrual to its present value, as the potential obligation is of a short-term nature. In accordance with the collective agreement on conditions of service, municipal employees are required to take their annual leave over a period of twelve months.

The 2005/06 comparative was restated by an amount of R1 390 084 in respect of Other Creditors that were adjusted against General Expenses. (Refer Note 35.20.)

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                      | 2007<br>R          | Restated<br>2006<br>R |
|----------------------------------------------------------------------|--------------------|-----------------------|
| <b>6. UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>                    |                    |                       |
| <b>6.1 Conditional Grants from other spheres of Government</b>       | 462,970,099        | 473,419,238           |
| Equitable Share (See Note 21.3)                                      | 0                  | 154,227,326           |
| Financial Management Grant (See Note 21.5)                           | 1,460,253          | 1,785,915             |
| Library Services - Carnegie Corporation Grant (See Note 21.6)        | 661,066            | 661,688               |
| SMME - Development (See Note 21.7)                                   | 157,300            | 192,501               |
| Project Consolidate (See Note 21.9)                                  | 5,480,913          | 3,341,525             |
| Disaster Management Grant (See Note 21.10)                           | 2,828,760          | 2,352,666             |
| Municipal Systems Improvement Grant (See Note 21.11)                 | 140,787            | 129,266               |
| Municipal Infrastructure Grant (See Note 21.12)                      | 100,767,913        | 39,088,844            |
| Restructuring Grant (See Note 21.13)                                 | 0                  | 38,327,707            |
| Ploughing Fields (See Note 21.15)                                    | 102,114            | 218,645               |
| Project Generation (DEAET) (See Note 21.17)                          | 5,658,496          | 5,196,179             |
| Amphitheatre (UDDI) (See Note 21.19)                                 | 33,534             | 30,790                |
| National Treasury - Accreditation of Municipalities (See Note 21.20) | 6,761,735          | 3,459,148             |
| 2010 FIFA World Cup (See Note 21.22)                                 | 7,655,429          | 0                     |
| Youth Projects (See Note 21.23)                                      | 0                  | 500,000               |
| Walmer Youth Development Project (See Note 21.24)                    | 88,611             | 130,000               |
| Youth Advisory Centre (See Note 21.25)                               | 245,862            | 0                     |
| HIV and Aids Columbia University Project (See Note 21.26)            | 305,441            | 0                     |
| PTIF - 2010 FIFA World Cup (See Note 21.27)                          | 88,327,156         | 52,883,921            |
| Other Grants (See Note 21.28)                                        | 242,294,729        | 170,893,117           |
| <b>Total Unspent Conditional Grants and Receipts</b>                 | <b>462,970,099</b> | <b>473,419,238</b>    |

During the year ended 30 June 2006, the balance in respect of Unspent Conditional Grants and Receipts was understated in the amount of R452 550 517. This balance was previously incorrectly included in the Government Grant Reserve in the amount of R451 888 829 and in the Capitalisation Reserve in the amount of R661 688 due to a classification error.

|                                               | R                    | R                                   | R                     |
|-----------------------------------------------|----------------------|-------------------------------------|-----------------------|
| <b>7. Property, Plant and Equipment (PPE)</b> |                      |                                     |                       |
| <b>As at 30 June 2007</b>                     |                      |                                     |                       |
|                                               | <b>Cost</b>          | <b>Accumulated<br/>Depreciation</b> | <b>Carrying Value</b> |
| Land and Buildings                            | 290,397,464          | 39,747,424                          | 250,650,040           |
| Infrastructure Assets                         | 4,170,544,446        | 1,413,850,135                       | 2,756,694,311         |
| Community Assets                              | 710,363,898          | 141,724,271                         | 568,639,627           |
| Heritage Assets                               | 59,964,030           |                                     | 59,964,030            |
| Other Assets                                  | 477,936,265          | 147,738,615                         | 330,197,650           |
|                                               | <b>5,709,206,103</b> | <b>1,743,060,445</b>                | <b>3,966,145,658</b>  |
| <b>As at 30 June 2006</b>                     |                      |                                     |                       |
|                                               | <b>Cost</b>          | <b>Accumulated<br/>Depreciation</b> | <b>Carrying Value</b> |
| Land and Buildings                            | 235,130,415          | 38,882,741                          | 196,247,674           |
| Infrastructure Assets                         | 3,592,783,979        | 1,202,220,695                       | 2,390,563,284         |
| Community Assets                              | 564,942,001          | 184,801,674                         | 380,140,327           |
| Heritage Assets                               | 39,902,880           | 50,653                              | 39,852,227            |
| Other Assets                                  | 255,700,424          | 96,886,685                          | 158,813,739           |
|                                               | <b>4,688,459,699</b> | <b>1,522,842,449</b>                | <b>3,165,617,250</b>  |

A gas turbine at Munelek is coupled with a ABSA sale and leaseback agreement. The Lease was repaid on 30 September 2006 during the 2006/07 financial year. (Refer note 2)

|                            | R           | R                                   | R                     |
|----------------------------|-------------|-------------------------------------|-----------------------|
| <b>8 Intangible Assets</b> |             |                                     |                       |
| <b>As at 30 June 2007</b>  |             |                                     |                       |
|                            | <b>Cost</b> | <b>Accumulated<br/>Depreciation</b> | <b>Carrying Value</b> |
| Computer Software          | 227,714,103 | 80,348,795                          | 147,365,308           |
| <b>As at 30 June 2006</b>  |             |                                     |                       |
|                            | <b>Cost</b> | <b>Accumulated<br/>Depreciation</b> | <b>Carrying Value</b> |
| Computer Software          | 140,341,344 | 52,751,768                          | 87,589,576            |

Property, plant and equipment may include property held for resale.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                  | 2007 | Restated<br>2006<br>R |
|----------------------------------|------|-----------------------|
| <b>9. INVESTMENT PROPERTY</b>    |      |                       |
| Cost                             |      | 90,305,290            |
| <b>Total Investment Property</b> |      | <b>90,305,290</b>     |
| Transferred to PPE               |      | (90,305,290)          |
| <b>Restated Balance</b>          |      | <b>0</b>              |

Investment Property is included under Property, plant and equipment as per the exemption in accordance with Gazette No. 30013.

The Logistics Park land was not reflected as investment property as no land value was available. In line with the exemption, the Investment Property was transferred back to Property, Plant and Equipment.

**10 INVESTMENTS**

|                                       |                      |                      |
|---------------------------------------|----------------------|----------------------|
| <b>Listed</b>                         | 0                    | 5,000                |
| RSA Government Stock                  | 0                    | 5,000                |
| <b>Financial instruments</b>          | 1,444,792,962        | 1,467,856,595        |
| Fixed Deposits                        | 1,443,968,038        | 1,281,926,972        |
| ABSA Leaseback Agreement              | 0                    | 184,633,791          |
| Sanlam Shares                         | 824,924              | 526,626              |
| UAL Long-term Investment              | 0                    | 769,206              |
| <b>Total</b>                          | <b>1,444,792,962</b> | <b>1,467,861,595</b> |
| <br>                                  |                      |                      |
| Average rate of return on investments | 8.57%                | 6.95%                |

The Municipal Structures Act, Act 117 of 1998, requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

No investments were written off during the year.

The Municipality is the holder of 40 919 shares in Sanlam Ltd at no value, of which the market value at 30 June 2007 was R824 924 (2006: R526 626). The shares were awarded to the Municipality as the beneficiary of an insurance endowment policy, which matured during October 1998.

The UAL investment had a Market Value of R2 785 987 as at 30 June 2006. The UAL Investment was redeemed during the 2006/07 financial year.

**11 LONG-TERM RECEIVABLES**

|                                                     |                   |                   |
|-----------------------------------------------------|-------------------|-------------------|
| Sporting and Other Bodies                           | 614,367           | 937,889           |
| Car Loans                                           | 4,442,914         | 8,489,327         |
| Consumer and Other Debtors                          | 67,298,621        | 39,268,397        |
| Rate and General                                    | 32,997,709        | 20,944,575        |
| Electricity                                         | 5,330,828         | 2,667,834         |
| Water                                               | 13,914,583        | 7,697,087         |
| Refuse                                              | 5,467,701         | 3,001,795         |
| Sewerage                                            | 9,585,910         | 4,906,641         |
| Insurance                                           | 1,891             | 50,466            |
| Subtotal                                            | 72,355,902        | 48,695,613        |
| Less: Current Portion transferred to Current Assets | 2,106,266         | 3,048,979         |
| Sporting and Other Bodies                           | 310,123           | 222,234           |
| Car Loans                                           | 1,796,143         | 2,826,745         |
|                                                     | <b>70,249,636</b> | <b>45,646,634</b> |

**CAR LOANS**

Senior Staff were entitled to car loans prior to the introduction of the MFMA. These loans attract interest at 8% per annum and are repayable over a maximum period of six years with the final repayments being made in the year 2010.

**CONSUMER AND OTHER DEBTORS**

The current portion is disclosed in Note 13 - Consumer Debtors.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                        | 2007<br>R         | Restated<br>2006<br>R |
|----------------------------------------|-------------------|-----------------------|
| <b>12 INVENTORY</b>                    |                   |                       |
| Raw Materials                          | 83,229,667        | 70,282,350            |
| Finished Goods                         | 182,683           | 150,132               |
| Water Finished Goods - at cost         | 70,763,599        | 57,891,992            |
| Consumable Goods                       | 1,859,549         | 1,581,196             |
|                                        | 10,423,836        | 10,659,030            |
| Less: Provision for Obsolete Inventory | (4,248,372)       | (4,248,372)           |
|                                        | <b>78,981,295</b> | <b>66,033,978</b>     |

The Inventory for Raw Materials - Water has been restated in the amount of R16 484 869 (2005/2006) in accordance with the exemption in Gazette No. 30013. The Municipality has capitalised all purchased water inventory and only purification costs in respect of non-purchased water inventory were capitalised.

|                            | R                    | R                               | R                  |
|----------------------------|----------------------|---------------------------------|--------------------|
|                            | Gross Balances       | Provision for<br>Doubtful Debts | Net Balance        |
| <b>13 CONSUMER DEBTORS</b> |                      |                                 |                    |
| <b>As at 30 June 2007</b>  |                      |                                 |                    |
| Service Debtors            | 1,185,241,202        | (596,166,883)                   | 589,074,319        |
| Rates and General          | 395,131,179          | (240,578,777)                   | 154,552,401        |
| Electricity                | 298,367,941          | (102,884,938)                   | 195,483,002        |
| Water                      | 270,595,224          | (137,833,182)                   | 132,762,042        |
| Refuse                     | 84,772,900           | (41,442,867)                    | 43,330,032         |
| Sewerage                   | 136,373,959          | (73,427,118)                    | 62,946,841         |
| House Rentals              | 8,295,956            | (5,335,513)                     | 2,960,443          |
| <b>Total</b>               | <b>1,193,537,158</b> | <b>(601,502,396)</b>            | <b>592,034,762</b> |

**Doubtful Debts Provision**

The doubtful debts provision is based on the ageing of debtors. Council's policy is to provide for all debtors' balances which have been outstanding for more than 90 days.

|                           |                      |                      |                    |
|---------------------------|----------------------|----------------------|--------------------|
| <b>As at 30 June 2006</b> |                      |                      |                    |
| Service Debtors           | 1,201,455,038        | (621,273,691)        | 580,181,347        |
| Rates and General         | 500,360,393          | (268,020,343)        | 232,340,050        |
| Electricity               | 292,969,110          | (112,376,245)        | 180,592,865        |
| Water                     | 261,041,682          | (135,072,942)        | 125,968,740        |
| Refuse                    | 47,001,228           | (29,608,082)         | 17,393,146         |
| Sewerage                  | 100,082,624          | (76,196,078)         | 23,886,546         |
| House Rentals             | 6,636,058            | (4,689,228)          | 1,946,830          |
| <b>Total</b>              | <b>1,208,091,096</b> | <b>(625,962,919)</b> | <b>582,128,177</b> |

**Rates and General: Ageing**

|                       |                    |                    |
|-----------------------|--------------------|--------------------|
| Current (0 - 30 days) | 137,171,018        | 214,482,344        |
| 31 - 60 Days          | 8,280,921          | 12,371,766         |
| 61 - 90 Days          | 9,100,462          | 5,485,940          |
| Over 90 Days          | 240,578,777        | 268,020,343        |
| <b>Total</b>          | <b>395,131,179</b> | <b>500,360,393</b> |

**Electricity: Ageing**

|                       |                    |                    |
|-----------------------|--------------------|--------------------|
| Current (0 - 30 days) | 181,715,031        | 170,891,822        |
| 31 - 60 Days          | 11,104,580         | 8,140,969          |
| 61 - 90 Days          | 2,663,391          | 1,560,075          |
| Over 90 Days          | 102,884,938        | 112,376,245        |
| <b>Total</b>          | <b>298,367,941</b> | <b>292,969,110</b> |

**Water: Ageing**

|                       |                    |                    |
|-----------------------|--------------------|--------------------|
| Current (0 - 30 days) | 117,967,621        | 114,424,475        |
| 31 - 60 Days          | 10,392,431         | 6,985,262          |
| 61 - 90 Days          | 4,401,990          | 4,559,002          |
| Over 90 Days          | 137,833,182        | 135,072,942        |
| <b>Total</b>          | <b>270,595,224</b> | <b>261,041,681</b> |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                       | 2007<br>R          | Restated<br>2006<br>R |
|---------------------------------------|--------------------|-----------------------|
| <b><u>Refuse: Ageing</u></b>          |                    |                       |
| Current (0 - 30 days)                 | 39,574,586         | 13,802,895            |
| 31 - 60 Days                          | 2,556,157          | 2,227,107             |
| 61 - 90 Days                          | 1,199,289          | 1,363,144             |
| Over 90 Days                          | 41,442,867         | 29,608,082            |
| <b>Total</b>                          | <b>84,772,900</b>  | <b>47,001,228</b>     |
| <b><u>Sanitation: Ageing</u></b>      |                    |                       |
| Current (0 - 30 days)                 | 54,621,252         | 15,956,259            |
| 31 - 60 Days                          | 5,629,332          | 4,733,749             |
| 61 - 90 Days                          | 2,696,257          | 3,196,539             |
| Over 90 Days                          | 73,427,118         | 76,196,078            |
| <b>Total</b>                          | <b>136,373,959</b> | <b>100,082,624</b>    |
| <b><u>Housing Rentals: Ageing</u></b> |                    |                       |
| Current (0 - 30 days)                 | 2,759,756          | 1,681,634             |
| 31 - 60 Days                          | 163,087            | 212,964               |
| 61 - 90 Days                          | 37,600             | 52,232                |
| Over 90 Days                          | 5,335,513          | 4,689,228             |
| <b>Total</b>                          | <b>8,295,956</b>   | <b>6,636,058</b>      |

|                                                             | R                         | R                          | R                          |
|-------------------------------------------------------------|---------------------------|----------------------------|----------------------------|
| <b><u>Summary of Debtors by Customer Classification</u></b> | <b><u>Residential</u></b> | <b><u>Industrial /</u></b> | <b><u>National and</u></b> |
|                                                             | <b><u>Consumers</u></b>   | <b><u>Commercial</u></b>   | <b><u>Provincial</u></b>   |
|                                                             |                           |                            | <b><u>Government</u></b>   |
| <b>30 June 2007</b>                                         |                           |                            |                            |
| Current (0 - 30 days)                                       | 427,047,412               | 64,057,112                 | 42,704,741                 |
| 31 - 60 Days                                                | 30,501,206                | 4,575,181                  | 3,050,121                  |
| 61 - 90 Days                                                | 16,079,191                | 2,411,879                  | 1,607,919                  |
| Over 90 Days                                                | 481,201,917               | 72,180,288                 | 48,120,192                 |
| <b>Gross Consumer Debtors by Customer classification</b>    | <b>954,829,727</b>        | <b>143,224,459</b>         | <b>95,482,973</b>          |
| Gross Consumer Debtors                                      |                           |                            | 1,193,537,158              |
| Less: Provision for Doubtful Debts                          |                           |                            | (601,502,396)              |
| <b>Net Consumer Debtors for the year ended 30 June 2007</b> |                           |                            | <b>592,034,762</b>         |

|                                                             | <b><u>Residential</u></b> | <b><u>Industrial /</u></b> | <b><u>National and</u></b> |
|-------------------------------------------------------------|---------------------------|----------------------------|----------------------------|
|                                                             | <b><u>Consumers</u></b>   | <b><u>Commercial</u></b>   | <b><u>Provincial</u></b>   |
|                                                             |                           |                            | <b><u>Government</u></b>   |
| <b>30 June 2006</b>                                         |                           |                            |                            |
| Current (0 - 30 days)                                       | 433,748,319               | 58,494,666                 | 38,996,444                 |
| 31 - 60 Days                                                | 27,737,453                | 4,160,618                  | 2,773,745                  |
| 61 - 90 Days                                                | 12,973,546                | 1,946,032                  | 1,297,355                  |
| Over 90 Days                                                | 500,770,335               | 75,115,550                 | 50,077,034                 |
| <b>Gross Consumer Debtors by Customer classification</b>    | <b>975,229,653</b>        | <b>139,716,866</b>         | <b>93,144,577</b>          |
| Gross Consumer Debtors                                      |                           |                            | 1,208,091,095              |
| Less: Provision for Doubtful Debts                          |                           |                            | (625,962,919)              |
| <b>Net Consumer Debtors for the year ended 30 June 2006</b> |                           |                            | <b>582,128,177</b>         |

|                                                       | 2007<br>R          | Restated<br>2006<br>R |
|-------------------------------------------------------|--------------------|-----------------------|
| <b>Reconciliation of the doubtful debts provision</b> |                    |                       |
| Balance at beginning of year                          | 625,962,919        | 510,349,046           |
| Contributions to provision                            | 40,978,710         | 96,157,335            |
| Additional Appropriation                              | 0                  | 72,291,967            |
|                                                       | 666,941,629        | 678,798,348           |
| Bad debts written off against provision               | (65,439,232)       | (52,835,429)          |
| <b>Balance at end of year</b>                         | <b>601,502,396</b> | <b>625,962,919</b>    |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                                        | 2007                 | Restated<br>2006     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                                                                        | R                    | R                    |
| <b>14 OTHER DEBTORS</b>                                                                                                                                                                |                      |                      |
| Government Grants and Subsidies                                                                                                                                                        | 36,341,726           | 12,213,601           |
| Interest on External Investments                                                                                                                                                       | 41,866,798           | 19,535,596           |
| External Debtors                                                                                                                                                                       | 24,315,998           | 44,691,020           |
|                                                                                                                                                                                        | <u>102,524,522</u>   | <u>76,440,217</u>    |
| Regional Service Levy - Turnover (See Note 20)                                                                                                                                         |                      | 3,258,519            |
| Regional Service Levy - Remuneration (See Note 20)                                                                                                                                     |                      | 8,183,333            |
| Restatement - Insurance Claim (See Note 22)                                                                                                                                            |                      | 251,639              |
| Restatement - Logistics Park Rental and Levy (See Note 22)                                                                                                                             |                      | 1,329,884            |
| <b>Restated Balance</b>                                                                                                                                                                |                      | <u>89,463,592</u>    |
| <b>15 VAT</b>                                                                                                                                                                          |                      |                      |
| VAT owed                                                                                                                                                                               | <u>11,945,742</u>    | <u>3,822,843</u>     |
| VAT is payable on the receipts basis. Only once payment is received from debtors, is VAT paid over to SARS.                                                                            |                      |                      |
| <b>16 CALL INVESTMENT DEPOSITS</b>                                                                                                                                                     |                      |                      |
| Other Deposits                                                                                                                                                                         | <u>55,555,956</u>    | <u>55,174,189</u>    |
| Call Deposits amounting to R18 763 885 (2006: R26 370 082) are ring-fenced and attributable to repaying long-term loans.                                                               |                      |                      |
| <b>17 BANK BALANCES AND CASH</b>                                                                                                                                                       |                      |                      |
| The Nelson Mandela Bay Metropolitan Municipality operates various current accounts with Standard Bank of South Africa, <u>with no overdraft facility</u> . The details are as follows: |                      |                      |
| <b>BANK:</b> Standard Bank of South Africa                                                                                                                                             |                      |                      |
| <b>ACCOUNT NUMBER:</b> 08 002 125 5                                                                                                                                                    |                      |                      |
| <b>BRANCH:</b> Port Elizabeth                                                                                                                                                          |                      |                      |
| <b>BRANCH CODE:</b> 05 00 17                                                                                                                                                           |                      |                      |
| Cash Book balance at beginning of the year                                                                                                                                             | 53,026,362           | 59,096,804           |
| Cash Book balance at end of the year                                                                                                                                                   | <u>215,431,857</u>   | <u>53,026,362</u>    |
| Bank Balance at beginning of the year                                                                                                                                                  | 78,753,519           | 89,395,726           |
| Bank Balance at end of the year                                                                                                                                                        | <u>129,415,076</u>   | <u>78,753,519</u>    |
| Which are disclosed in the Statement of Financial Position as follows:                                                                                                                 |                      |                      |
| Bank balances and cash                                                                                                                                                                 | <u>215,431,857</u>   | <u>53,026,362</u>    |
| <b>18. PROPERTY RATES</b>                                                                                                                                                              |                      |                      |
| <b><u>Actual</u></b>                                                                                                                                                                   |                      |                      |
| Residential                                                                                                                                                                            | 249,574,595          | 215,688,224          |
| Commercial                                                                                                                                                                             | 241,629,609          | 243,633,099          |
| State                                                                                                                                                                                  | 41,986,161           | 39,545,221           |
|                                                                                                                                                                                        | <u>533,190,365</u>   | <u>498,866,544</u>   |
| <b><u>Valuations</u></b>                                                                                                                                                               | <b>R000's</b>        | <b>R000's</b>        |
| Residential                                                                                                                                                                            | 4,341,630            | 4,120,355            |
| Commercial                                                                                                                                                                             | 2,558,232            | 2,769,396            |
| State                                                                                                                                                                                  | 548,005              | 559,899              |
|                                                                                                                                                                                        | <u>7,447,867</u>     | <u>7,449,650</u>     |
| <b>19. SERVICE CHARGES</b>                                                                                                                                                             |                      |                      |
| Sale of Electricity                                                                                                                                                                    | 1,119,758,699        | 1,037,156,962        |
| Sale of Water                                                                                                                                                                          | 265,345,267          | 287,596,265          |
| Refuse Removal                                                                                                                                                                         | 82,719,764           | 81,504,028           |
| Sewerage and Sanitation charges                                                                                                                                                        | 185,314,498          | 167,478,569          |
|                                                                                                                                                                                        | <u>1,653,138,228</u> | <u>1,573,735,823</u> |
| Service charges in respect of Water in the amount of R20 139 285 has been restated in respect of the 2005/06 financial year.                                                           |                      |                      |
| Service charges in respect of Electricity in the amount of R23 644 595 has been restated in respect of the 2005/06 financial year.                                                     |                      |                      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                                                                                                                                                                                                                                                                                         | 2007<br>R            | Restated<br>2006<br>R |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| <b>20 REGIONAL SERVICES LEVIES</b>                                                                                                                                                                                                                                                                                                                                                                                                      |                      |                       |
| Regional Service Levies - turnover                                                                                                                                                                                                                                                                                                                                                                                                      | 0                    | 68,692,001            |
| Regional Service Levies - remuneration                                                                                                                                                                                                                                                                                                                                                                                                  | 0                    | 211,586,760           |
| Total Regional Service Levies                                                                                                                                                                                                                                                                                                                                                                                                           | <u>0</u>             | <u>280,278,761</u>    |
| <p>Regional Service Levies - turnover was restated in the amount of R3 258 519 and Regional Service Levies - remuneration in the amount of R8 183 333 due to income accrued during the 2006/07 financial year, being in respect of the 2005/06 financial year.</p> <p>Regional Services Levies were discontinued at the end of the 2005/06 financial year and were replaced with a Levies Replacement Grant from National Treasury.</p> |                      |                       |
| <b>21 GOVERNMENT GRANTS AND SUBSIDIES</b>                                                                                                                                                                                                                                                                                                                                                                                               |                      |                       |
| PHB Subsidies                                                                                                                                                                                                                                                                                                                                                                                                                           | 66,357,404           | 113,333,518           |
| Health Subsidies                                                                                                                                                                                                                                                                                                                                                                                                                        | 59,068,835           | 63,398,802            |
| Equitable Share Allocation                                                                                                                                                                                                                                                                                                                                                                                                              | 395,073,562          | 156,300,210           |
| Transportation Subsidies                                                                                                                                                                                                                                                                                                                                                                                                                | 4,056,253            | 4,653,680             |
| Finance Management Grant                                                                                                                                                                                                                                                                                                                                                                                                                | 543,338              | 521,148               |
| Library Services - Carnegie Corporation Grant                                                                                                                                                                                                                                                                                                                                                                                           | 36,670               | 108,639               |
| SMME - Development                                                                                                                                                                                                                                                                                                                                                                                                                      | 35,201               | 89,499                |
| LGWSETA Funding                                                                                                                                                                                                                                                                                                                                                                                                                         | 0                    | 2,756,733             |
| Project Consolidate                                                                                                                                                                                                                                                                                                                                                                                                                     | 2,371,124            | 824,659               |
| Disaster Management Grant                                                                                                                                                                                                                                                                                                                                                                                                               | 1,338,912            | 2,166,000             |
| Municipal Systems Improvement Grant                                                                                                                                                                                                                                                                                                                                                                                                     | 0                    | 2,069,859             |
| Municipal Infrastructure Grant                                                                                                                                                                                                                                                                                                                                                                                                          | 14,916,667           | 689,875               |
| Restructuring Grant                                                                                                                                                                                                                                                                                                                                                                                                                     | 5,359,751            | 5,481,074             |
| Capacity Building Grant                                                                                                                                                                                                                                                                                                                                                                                                                 | 0                    | 208,346               |
| Ploughing fields                                                                                                                                                                                                                                                                                                                                                                                                                        | 127,453              | 1,123,408             |
| DBSA-Systems Renewal Project                                                                                                                                                                                                                                                                                                                                                                                                            | 0                    | 1,694,737             |
| Project Generation (DEAET)                                                                                                                                                                                                                                                                                                                                                                                                              | 0                    | 893,936               |
| Community Development Workers                                                                                                                                                                                                                                                                                                                                                                                                           | 0                    | 510,060               |
| Amphitheatre - Uitenhage - UDDI                                                                                                                                                                                                                                                                                                                                                                                                         | 0                    | 1,041,011             |
| National Treasury - Accreditation of Municipalities                                                                                                                                                                                                                                                                                                                                                                                     | 697,413              | 0                     |
| RSC Levies Replacement                                                                                                                                                                                                                                                                                                                                                                                                                  | 246,595,009          | 0                     |
| National and Provincial Government Capex Funding                                                                                                                                                                                                                                                                                                                                                                                        | 428,037,609          | 156,132,005           |
| 2010 FIFA World Cup Stadium                                                                                                                                                                                                                                                                                                                                                                                                             | 317,085              | 0                     |
| Youth Projects                                                                                                                                                                                                                                                                                                                                                                                                                          | 500,000              | 0                     |
| Walmer Youth Development Project                                                                                                                                                                                                                                                                                                                                                                                                        | 41,389               | 0                     |
| Youth Advisory Centre                                                                                                                                                                                                                                                                                                                                                                                                                   | 504,138              | 0                     |
| HIV and Aids Columbia University Project                                                                                                                                                                                                                                                                                                                                                                                                | 532,869              | 0                     |
| Other                                                                                                                                                                                                                                                                                                                                                                                                                                   | 25,347,039           | 7,592,300             |
|                                                                                                                                                                                                                                                                                                                                                                                                                                         | <u>1,251,855,724</u> | <u>521,589,499</u>    |
| <b>21.1 PHB Subsidies</b>                                                                                                                                                                                                                                                                                                                                                                                                               |                      |                       |
| <p>This Grant is received from Provincial Government and is used for the construction of low-cost housing</p>                                                                                                                                                                                                                                                                                                                           |                      |                       |
| Balance at beginning of year                                                                                                                                                                                                                                                                                                                                                                                                            | 0                    | 0                     |
| Current year receipts                                                                                                                                                                                                                                                                                                                                                                                                                   | 66,357,404           | 113,333,518           |
| Conditions met - transferred to revenue                                                                                                                                                                                                                                                                                                                                                                                                 | (66,357,404)         | (113,333,518)         |
| Conditions still to be met - transferred to liabilities                                                                                                                                                                                                                                                                                                                                                                                 | <u>0</u>             | <u>0</u>              |
| <b>21.2 Health Subsidies</b>                                                                                                                                                                                                                                                                                                                                                                                                            |                      |                       |
| <p>This grant is received from the Provincial Government and used in the Health function.</p>                                                                                                                                                                                                                                                                                                                                           |                      |                       |
| Balance at beginning of year                                                                                                                                                                                                                                                                                                                                                                                                            | 0                    | 0                     |
| Current year receipts                                                                                                                                                                                                                                                                                                                                                                                                                   | 59,068,835           | 63,398,802            |
| Conditions met - transferred to revenue                                                                                                                                                                                                                                                                                                                                                                                                 | (59,068,835)         | (63,398,802)          |
| Conditions still to be met - transferred to liabilities                                                                                                                                                                                                                                                                                                                                                                                 | <u>0</u>             | <u>0</u>              |
| <b>21.3 Equitable Share</b>                                                                                                                                                                                                                                                                                                                                                                                                             |                      |                       |
| <p>In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.</p>                                                                                                                                                                                                                                                                                                     |                      |                       |
| Balance unspent at beginning of year                                                                                                                                                                                                                                                                                                                                                                                                    | 154,227,326          | 122,107,570           |
| Current year receipts                                                                                                                                                                                                                                                                                                                                                                                                                   | 240,876,395          | 188,974,187           |
| Funding of Capital Projects                                                                                                                                                                                                                                                                                                                                                                                                             | (30,159)             | (554,221)             |
| Conditions met - transferred to revenue                                                                                                                                                                                                                                                                                                                                                                                                 | (395,073,562)        | (156,300,210)         |
| Conditions still to be met - transferred to liabilities                                                                                                                                                                                                                                                                                                                                                                                 | <u>0</u>             | <u>154,227,326</u>    |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
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|                                                                                                                                                                  | 2007<br>R        | Restated<br>2006<br>R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------|
| <b>21.4 Transportation Subsidies</b>                                                                                                                             |                  |                       |
| This subsidy is used for subsidising the provision of roads in the municipal area.                                                                               |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 0                | 0                     |
| Current year receipts                                                                                                                                            | 4,056,253        | 4,653,680             |
| Conditions met - transferred to revenue                                                                                                                          | (4,056,253)      | (4,653,680)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>0</u>         | <u>0</u>              |
| <b>21.5 Finance Management Grant</b>                                                                                                                             |                  |                       |
| This grant is used in the financial reform project under the guidance of National Treasury.                                                                      |                  |                       |
| Balance unspent at beginning of year (See Note 36.2)                                                                                                             | 1,785,915        | 6,160,927             |
| Current year receipts                                                                                                                                            | 1,217,877        | 3,500,000             |
| Funding of Capital Projects                                                                                                                                      | (1,000,000)      | (7,353,864)           |
| Conditions met - transferred to revenue                                                                                                                          | (543,338)        | (521,148)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>1,460,253</u> | <u>1,785,915</u>      |
| <b>21.6 Library Services - Carnegie Corporation Grant</b>                                                                                                        |                  |                       |
| This grant is used for the provision of books and services in the Municipality's libraries.                                                                      |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 661,688          | 751,338               |
| Current year receipts                                                                                                                                            | 58,975           | 142,567               |
| Funding of Capital Projects                                                                                                                                      | (22,927)         | (123,577)             |
| Conditions met - transferred to revenue                                                                                                                          | (36,670)         | (108,639)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>661,066</u>   | <u>661,688</u>        |
| <b>21.7 SMME - Development</b>                                                                                                                                   |                  |                       |
| This subsidy is used for the development of small businesses in the Municipality.                                                                                |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 192,501          | 0                     |
| Current year receipts                                                                                                                                            | 0                | 282,000               |
| Conditions met - transferred to revenue                                                                                                                          | (35,201)         | (89,499)              |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>157,300</u>   | <u>192,501</u>        |
| <b>21.8 LGWSETA Funding</b>                                                                                                                                      |                  |                       |
| This grant is used to promote skills development within the Municipality.                                                                                        |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 0                | 0                     |
| Current year receipts                                                                                                                                            | 0                | 2,756,733             |
| Conditions met - transferred to revenue                                                                                                                          | -                | (2,756,733)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>0</u>         | <u>0</u>              |
| <b>21.9 Project Consolidate</b>                                                                                                                                  |                  |                       |
| This grant was received from the Department of Provincial and Local Government as an initiative to improve municipal systems relating to the collection of debt. |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 3,341,525        | 0                     |
| Current year receipts                                                                                                                                            | 4,510,512        | 4,166,184             |
| Conditions met - transferred to revenue                                                                                                                          | (2,371,124)      | (824,659)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>5,480,913</u> | <u>3,341,525</u>      |
| <b>21.10 Disaster Management Grant</b>                                                                                                                           |                  |                       |
| This grant is used to provide aid to those in need when disasters arise in the municipal area.                                                                   |                  |                       |
| Balance unspent at beginning of year                                                                                                                             | 2,352,666        | 3,244,150             |
| Current year receipts                                                                                                                                            | 1,813,006        | 1,274,516             |
| Conditions met - transferred to revenue                                                                                                                          | (1,336,912)      | (2,166,000)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>2,828,760</u> | <u>2,352,666</u>      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                  | 2007<br>R          | Restated<br>2006<br>R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------|
| <b>21.11 Municipal Systems Improvement Grant</b>                                                                                                                 |                    |                       |
| This grant was received from the Department of Provincial and Local Government in an initiative to improve municipal systems relating to the collection of debt. |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 129,266            | 2,084,002             |
| Current year receipts                                                                                                                                            | 11,521             | 115,122               |
| Conditions met - transferred to revenue                                                                                                                          | 0                  | (2,069,859)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>140,787</u>     | <u>129,266</u>        |
| <b>21.12 Municipal Infrastructure Grant</b>                                                                                                                      |                    |                       |
| This grant is used for the provision of infrastructure in the municipal area.                                                                                    |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 39,088,844         | 39,992,446            |
| Current year receipts                                                                                                                                            | 141,737,299        | 85,923,705            |
| Funding of Capital Projects                                                                                                                                      | (65,141,563)       | (86,137,432)          |
| Conditions met - transferred to revenue                                                                                                                          | (14,916,667)       | (689,875)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>100,767,913</u> | <u>39,088,844</u>     |
| <b>21.13 Restructuring Grant</b>                                                                                                                                 |                    |                       |
| This grant is used for the restructuring of the Municipality.                                                                                                    |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 38,327,707         | 56,522,782            |
| Current year receipts                                                                                                                                            | 29,902,533         | 37,684,677            |
| Funding of Capital Projects                                                                                                                                      | (84,115,358)       | (50,398,678)          |
| Conditions met - transferred to revenue                                                                                                                          | (5,359,751)        | (5,481,074)           |
| Transferred to Other debtors                                                                                                                                     | 21,244,869         | 0                     |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>0</u>           | <u>38,327,707</u>     |
| <b>21.14 Capacity Building Grant</b>                                                                                                                             |                    |                       |
| This grant was received from Provincial Government for capacity building in the various wards.                                                                   |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 0                  | 200,000               |
| Current year receipts                                                                                                                                            | 0                  | 8,346                 |
| Conditions met - transferred to revenue                                                                                                                          | 0                  | (208,346)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>0</u>           | <u>0</u>              |
| <b>21.15 Ploughing Fields</b>                                                                                                                                    |                    |                       |
| This grant is used to promote economic development.                                                                                                              |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 218,645            | 1,020,000             |
| Current year receipts                                                                                                                                            | 10,922             | 322,054               |
| Conditions met - transferred to revenue                                                                                                                          | (127,453)          | (1,123,408)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>102,114</u>     | <u>218,645</u>        |
| <b>21.16 DBSA-Systems Renewal Project</b>                                                                                                                        |                    |                       |
| This grant is used for the upgrading of the Municipality's information systems.                                                                                  |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 0                  | 0                     |
| Current year receipts                                                                                                                                            | 0                  | 1,694,737             |
| Conditions met - transferred to revenue                                                                                                                          | 0                  | (1,694,737)           |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>0</u>           | <u>0</u>              |
| <b>21.17 Project Generation (DEAET)</b>                                                                                                                          |                    |                       |
| This grant is used to promote economic development.                                                                                                              |                    |                       |
| Balance unspent at beginning of year                                                                                                                             | 5,196,179          | 0                     |
| Current year receipts                                                                                                                                            | 462,317            | 6,090,116             |
| Conditions met - transferred to revenue                                                                                                                          | 0                  | (893,936)             |
| Conditions still to be met - transferred to liabilities                                                                                                          | <u>5,658,496</u>   | <u>5,196,179</u>      |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                          | 2007<br>R        | Restated<br>2006<br>R |
|----------------------------------------------------------------------------------------------------------|------------------|-----------------------|
| <b>21.18 Community Development Workers</b>                                                               |                  |                       |
| This grant is used to cover the costs associated with community development workers.                     |                  |                       |
| Balance unspent at beginning of year                                                                     | 0                | 0                     |
| Current year receipts                                                                                    | 0                | 510,060               |
| Conditions met - transferred to revenue                                                                  | 0                | (510,060)             |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>         | <u>0</u>              |
| <b>21.19 Amphitheatre - Uitenhage - UDDI</b>                                                             |                  |                       |
| This grant is used to promote Economic development in the Uitenhage and Despatch Development Initiative. |                  |                       |
| Balance unspent at beginning of year                                                                     | 30,790           | 1,000,000             |
| Current year receipts                                                                                    | 2,744            | 71,802                |
| Conditions met - transferred to revenue                                                                  | 0                | (1,041,011)           |
| Conditions still to be met - transferred to liabilities                                                  | <u>33,534</u>    | <u>30,790</u>         |
| <b>21.20 National Treasury - Accreditation of Municipalities</b>                                         |                  |                       |
| This grant is used for capacity building of employees in the Municipality's Housing Directorate.         |                  |                       |
| Balance unspent at beginning of year                                                                     | 3,459,148        | 0                     |
| Current year receipts                                                                                    | 4,000,000        | 3,459,148             |
| Conditions met - transferred to revenue                                                                  | (697,413)        | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>6,761,735</u> | <u>3,459,148</u>      |
| <b>21.21 RSC Levies Replacement Grant</b>                                                                |                  |                       |
| This grant is used to compensate for loss of revenue due to the abolishment of RSC Levies.               |                  |                       |
| Balance unspent at beginning of year                                                                     | 0                | 0                     |
| Current year receipts                                                                                    | 246,595,009      | 0                     |
| Conditions met - transferred to revenue                                                                  | (246,595,009)    | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>         | <u>0</u>              |
| <b>21.22 2010 FIFA World Cup Stadium</b>                                                                 |                  |                       |
| This grant is used to fund the building of the 2010 Multi-purpose Stadium.                               |                  |                       |
| Balance unspent at beginning of year                                                                     | 0                | 0                     |
| Current year receipts                                                                                    | 185,982,212      | 0                     |
| Funding of Capital Projects                                                                              | (178,009,698)    | 0                     |
| Conditions met - transferred to revenue                                                                  | (317,085)        | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>7,655,429</u> | <u>0</u>              |
| <b>21.23 Youth Projects</b>                                                                              |                  |                       |
| This grant is used for youth development.                                                                |                  |                       |
| Balance unspent at beginning of year                                                                     | 500,000          | 0                     |
| Current year receipts                                                                                    | 0                | 500,000               |
| Conditions met - transferred to revenue                                                                  | (500,000)        | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>         | <u>500,000</u>        |
| <b>21.24 Walmer Youth Development Project</b>                                                            |                  |                       |
| This grant is used for youth development.                                                                |                  |                       |
| Balance unspent at beginning of year                                                                     | 130,000          | 0                     |
| Current year receipts                                                                                    | 0                | 130,000               |
| Conditions met - transferred to revenue                                                                  | (41,389)         | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>88,611</u>    | <u>130,000</u>        |
| <b>21.25 Youth Advisory Centre</b>                                                                       |                  |                       |
| This grant is used for youth development.                                                                |                  |                       |
| Balance unspent at beginning of year                                                                     | 0                | 0                     |
| Current year receipts                                                                                    | 750,000          | 0                     |
| Conditions met - transferred to revenue                                                                  | (504,138)        | 0                     |
| Conditions still to be met - transferred to liabilities                                                  | <u>245,862</u>   | <u>0</u>              |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                          | 2007<br>R            | Restated<br>2006<br>R |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| <b>21.26 HIV and Aids Columbia University Project</b>                                                                                    |                      |                       |
| This Grant is used for HIV and Aids projects.                                                                                            |                      |                       |
| Balance unspent at beginning of year                                                                                                     | 0                    | 0                     |
| Current year receipts                                                                                                                    | 838,309              | 0                     |
| Conditions met - transferred to revenue                                                                                                  | (532,869)            | 0                     |
| Conditions still to be met - transferred to liabilities                                                                                  | <u>305,441</u>       | <u>0</u>              |
| <b>21.27 PTIF Soccer World Cup</b>                                                                                                       |                      |                       |
| This grant is received from National Treasury for upgrading of infrastructure to support the 2010 Multi-purpose Stadium.                 |                      |                       |
| Balance unspent at beginning of year                                                                                                     | 52,883,921           | 0                     |
| Current year receipts                                                                                                                    | 68,600,000           | 53,650,000            |
| Funding of Capital Expenditure                                                                                                           | (33,156,765)         | (766,079)             |
| Conditions still to be met - transferred to liabilities                                                                                  | <u>88,327,156</u>    | <u>52,883,921</u>     |
| <b>21.28 Other Grants</b>                                                                                                                |                      |                       |
| These are grants received by the Municipality for various purposes                                                                       |                      |                       |
| Balance unspent at beginning of year                                                                                                     | 170,893,117          | 86,461,383            |
| Current year receipts                                                                                                                    | 163,309,791          | 102,822,189           |
| National and Provincial Government Capex Funding                                                                                         | (66,561,140)         | (10,798,154)          |
| Conditions met - transferred to revenue                                                                                                  | (25,347,039)         | (7,592,300)           |
| Conditions still to be met - transferred to liabilities                                                                                  | <u>242,294,729</u>   | <u>170,893,117</u>    |
| <b>22 OTHER INCOME</b>                                                                                                                   |                      |                       |
| Sale of Land                                                                                                                             | 11,139,925           | 8,700,495             |
| Fees and Charges                                                                                                                         | 98,184,562           | 117,440,421           |
| Grave Income                                                                                                                             | 4,968,972            | 4,419,962             |
| Interest                                                                                                                                 | 35,249,352           | 24,877,818            |
| Rental Income                                                                                                                            | 9,411,217            | 9,033,039             |
| Other Income                                                                                                                             | 59,582,003           | 31,138,464            |
|                                                                                                                                          | <u>218,536,032</u>   | <u>195,609,999</u>    |
| Transfer to Licences and Permits                                                                                                         |                      | (57,508,895)          |
| Restatement - Insurance Claim (See Note 35.7)                                                                                            |                      | 251,639               |
| Restatement - Logistics Park Rental and Levy (See Note 35.7)                                                                             |                      | 1,329,884             |
| <b>Restated Balance</b>                                                                                                                  |                      | <u>139,682,627</u>    |
| Licences and Permits are disclosed separately in line with National Treasury requirements.                                               |                      |                       |
| The decrease in income in 2006/07 is in relation to vehicle registration and licence fees no longer being collected by the Municipality. |                      |                       |
| <b>23 EMPLOYEE RELATED COSTS</b>                                                                                                         |                      |                       |
| Employee related costs - Salaries and Wages                                                                                              | 707,268,295          | 663,589,717           |
| Employee related costs - Contributions for UIF, pensions and medical aids                                                                | 211,509,725          | 166,698,093           |
| Travel, motor car, accomodation, subsistence and other allowances                                                                        | 46,388,029           | 33,941,990            |
| Housing benefits and allowances                                                                                                          | 9,518,789            | 8,683,227             |
| Overtime payouts                                                                                                                         | 53,360,563           | 45,140,367            |
| Performance bonus                                                                                                                        | 0                    | 457,340               |
| Long-service Awards                                                                                                                      | 15,547,008           | 14,307,934            |
| Less: Salaries Capitalised to PPE                                                                                                        | (6,939,303)          | 0                     |
|                                                                                                                                          | <u>1,036,653,107</u> | <u>932,818,668</u>    |
| <b>Remuneration of the Municipal Manager</b>                                                                                             |                      |                       |
| Annual Remuneration                                                                                                                      | 727,888              | 618,670               |
| Performance Bonuses                                                                                                                      | 0                    | 0                     |
| Car allowance                                                                                                                            | 86,912               | 96,000                |
| Contributions to UIF, Medical and Pension Funds                                                                                          | 0                    | 1,142                 |
| <b>Total</b>                                                                                                                             | <u>814,800</u>       | <u>715,812</u>        |
| <b>Remuneration of the Chief Financial Officer</b>                                                                                       |                      |                       |
| Annual Remuneration                                                                                                                      | 490,268              | 481,073               |
| Performance Bonuses                                                                                                                      | 0                    | 53,994                |
| Car allowance                                                                                                                            | 144,000              | 144,000               |
| Contributions to UIF, Medical and Pension Funds                                                                                          | 49,521               | 95,046                |
| <b>Total</b>                                                                                                                             | <u>683,789</u>       | <u>774,113</u>        |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

| 23 EMPLOYEE RELATED COSTS (continued)                 | 2007<br>R      | Restated<br>2006<br>R |
|-------------------------------------------------------|----------------|-----------------------|
| <b>Remuneration of Individual Executive Directors</b> |                |                       |
| <b>Corporate Administration</b>                       |                |                       |
| Annual Remuneration                                   | 699,630        | 598,799               |
| Performance Bonus                                     | 0              | 67,541                |
| Car Allowance                                         | 80,000         | 115,000               |
| UIF, Medical and Pension Funds                        | 933            | 1,252                 |
|                                                       | <u>780,563</u> | <u>782,592</u>        |
| <b>Economic Development, Tourism and Agriculture</b>  |                |                       |
| Annual Remuneration                                   | 425,212        | 564,972               |
| Performance Bonus                                     | 0              | 0                     |
| Car Allowance                                         | 114,494        | 148,764               |
| UIF, Medical and Pension Funds                        | 233            | 1,252                 |
|                                                       | <u>539,939</u> | <u>714,988</u>        |
| <b>Environmental Services</b>                         |                |                       |
| Annual Remuneration                                   | 523,171        | 492,902               |
| Performance Bonus                                     | 0              | 53,994                |
| Car Allowance                                         | 120,000        | 120,000               |
| UIF, Medical and Pension Funds                        | 63,741         | 91,150                |
|                                                       | <u>706,912</u> | <u>758,046</u>        |
| <b>Health</b>                                         |                |                       |
| Annual Remuneration                                   | 97,776         | 566,258               |
| Performance Bonus                                     | 0              | 53,994                |
| Car Allowance                                         | 0              | 88,000                |
| UIF, Medical and Pension Funds                        | 0              | 0                     |
|                                                       | <u>97,776</u>  | <u>708,252</u>        |
| <b>Housing and Land</b>                               |                |                       |
| Annual Remuneration                                   | 680,281        | 557,552               |
| Performance Bonus                                     | 0              | 53,994                |
| Car Allowance                                         | 37,500         | 150,000               |
| UIF, Medical and Pension Funds                        | 466            | 1,252                 |
|                                                       | <u>718,247</u> | <u>762,798</u>        |
| <b>Human Resources</b>                                |                |                       |
| Annual Remuneration                                   | 478,230        | 607,268               |
| Performance Bonus                                     | 0              | 0                     |
| Car Allowance                                         | 150,236        | 100,000               |
| UIF, Medical and Pension Funds                        | 9,554          | 1,075                 |
|                                                       | <u>638,020</u> | <u>708,343</u>        |
| <b>Electricity and Energy</b>                         |                |                       |
| Annual Remuneration                                   | 593,896        | 553,394               |
| Performance Bonus                                     | 0              | 53,994                |
| Car Allowance                                         | 154,080        | 154,080               |
| UIF, Medical and Pension Funds                        | 25,357         | 23,400                |
|                                                       | <u>773,333</u> | <u>784,868</u>        |
| <b>Infrastructure and Engineering</b>                 |                |                       |
| Annual Remuneration                                   | 656,988        | 617,736               |
| Performance Bonus                                     | 0              | 65,835                |
| Car Allowance                                         | 96,000         | 96,000                |
| UIF, Medical and Pension Funds                        | 0              | 0                     |
|                                                       | <u>752,988</u> | <u>779,571</u>        |
| <b>Recreation and Culture</b>                         |                |                       |
| Annual Remuneration                                   | 0              | 564,972               |
| Performance Bonus                                     | 0              | 53,994                |
| Car Allowance                                         | 0              | 148,764               |
| UIF, Medical and Pension Funds                        | 0              | 0                     |
|                                                       | <u>0</u>       | <u>767,730</u>        |
| <b>Safety and Security</b>                            |                |                       |
| Annual Remuneration                                   |                | 645,458               |
| Performance Bonus                                     |                | 0                     |
| Car Allowance                                         |                | 30,000                |
| UIF, Medical and Pension Funds                        |                | 530                   |
|                                                       | <u>0</u>       | <u>675,988</u>        |

Executive Director positions where no remuneration has been reflected were vacant for the period under review.



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                       | 2007<br>R         | Restated<br>2006<br>R |
|---------------------------------------|-------------------|-----------------------|
| <b>24 REMUNERATION OF COUNCILLORS</b> |                   |                       |
| Mayor's remuneration/allowance        | 730,593           | 360,541               |
| Deputy Mayor's remuneration/allowance | 573,524           | 309,892               |
| Speaker                               | 573,524           | 309,892               |
| Councillors' remuneration/allowances  | 32,375,671        | 19,270,996            |
| Pension fund contributions            | 0                 | 1,956,277             |
| Telephone allowances                  | 1,082,628         | 954,066               |
| Transport allowances                  | 0                 | 4,496,351             |
| Housing allowances                    | 0                 | 510,194               |
| Councillor's medical aid              | 0                 | 493,194               |
| Office bearers' allowances            | 0                 | 565,030               |
| Personal facilities allowances        | 0                 | 98,298                |
|                                       | <b>35,335,941</b> | <b>29,324,731</b>     |

***In-kind Benefits***

The Executive Mayor, Deputy 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.

The Executive Mayor has the use of a Council owned vehicle for official duties driven by a chauffeur employed by the Council.

In accordance with the Councillor's remuneration package, the structure has changed to an all-inclusive package, with the exception of a telephone allowance.

**25 INTEREST PAID**

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Interest on External Loans | 24,103,040        | 26,932,678        |
| Lease Charges              | 80,298            | 319,440           |
|                            | <b>24,183,338</b> | <b>27,252,118</b> |

**26 BULK PURCHASES**

|             |                    |                    |
|-------------|--------------------|--------------------|
| Electricity | 635,394,969        | 577,088,128        |
| Water       | 30,927,895         | 24,088,799         |
|             | <b>666,322,864</b> | <b>601,176,927</b> |

**27 GRANTS AND SUBSIDIES PAID**

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Grants in aids                | 4,988,648         | 7,799,869         |
| Grants to Entities            | 21,145,770        | 17,739,864        |
| Grants to Other Organisations | 16,836,177        | 15,568,580        |
|                               | <b>42,970,595</b> | <b>41,108,313</b> |

The 2005/06 comparatives were restated in the amounts of R17 739 864 and R15 568 580 in respect of Grants to Entities and Grants to Other Organisations respectively. These amounts were transferred from General Expenses.

**28 CASH GENERATED FROM OPERATIONS**

|                                                      |                    |                    |
|------------------------------------------------------|--------------------|--------------------|
| Net surplus for the year                             | 487,168,764        | 73,263,263         |
| Change in accounting policy/errors                   | 0                  | 361,424,306        |
| Restated surplus for the year                        | 487,168,764        | 434,687,569        |
| Depreciation                                         | 266,587,719        | 192,016,619        |
| Investment income                                    | (218,979,879)      | (203,095,449)      |
| Interest paid                                        | 24,183,338         | 27,252,118         |
| Operating surplus before working capital changes:    | 558,959,942        | 450,860,857        |
| (Increase)/Decrease in inventories                   | (12,947,317)       | 9,243,037          |
| (Increase) in consumer debtors                       | (9,906,585)        | (128,905,940)      |
| Decrease in current portion of long-term receivables | 942,713            | 966,344            |
| Increase in creditors                                | 333,750,816        | 45,458,586         |
| Increase in unspent conditional grants               | (10,449,139)       | 93,690,679         |
| Increase in current portion of long-term liabilities | (7,606,197)        | 8,612,817          |
| Increase in other debtors                            | (13,060,930)       | (42,002,401)       |
| Increase in VAT                                      | (8,122,900)        | (6,318,255)        |
| Increase in consumer deposits                        | 5,956,316          | 11,410,215         |
| Cash generated by operations                         | <b>837,516,719</b> | <b>443,015,939</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                                          | 2007                 | Restated<br>2006    |
|--------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
|                                                                                                                          | R                    | R                   |
| <b>29 CASH AND CASH EQUIVALENTS</b>                                                                                      |                      |                     |
| Bank balances and cash                                                                                                   | 215,431,857          | 53,026,362          |
| Call investment deposits                                                                                                 | 55,555,956           | 55,174,189          |
| <b>Total cash and cash equivalents</b>                                                                                   | <b>270,987,813</b>   | <b>108,200,551</b>  |
| <b>30 (DECREASE) IN LONG-TERM LOANS (EXTERNAL)</b>                                                                       |                      |                     |
| Loans raised                                                                                                             | 0                    | 0                   |
| Loans repaid                                                                                                             | (199,423,149)        | (36,735,750)        |
|                                                                                                                          | <b>(199,423,149)</b> | <b>(36,735,750)</b> |
| <b>ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE</b>                                                              |                      |                     |
| <b>31 MANAGEMENT ACT</b>                                                                                                 |                      |                     |
| <b>31.1 Contributions to organised local government</b>                                                                  |                      |                     |
| Opening balance                                                                                                          | 0                    | 0                   |
| Council subscriptions                                                                                                    | 6,422,160            | 1,121,746           |
| Amount paid - current year                                                                                               | (6,422,160)          | (1,121,746)         |
| <b>Balance unpaid (included in creditors)</b>                                                                            | <b>0</b>             | <b>0</b>            |
| The 2005/06 comparative was restated in the amount of R220 699 to bring it in line with the actual contribution made.    |                      |                     |
| <b>31.2 Audit Fees</b>                                                                                                   |                      |                     |
| Opening balance                                                                                                          | 0                    | 0                   |
| Current year audit fee                                                                                                   | 3,991,696            | 3,184,417           |
| Amount paid - current year                                                                                               | (3,991,696)          | (3,184,417)         |
| Amount paid - previous year                                                                                              | -                    | 0                   |
| <b>Balance unpaid (included in creditors)</b>                                                                            | <b>0</b>             | <b>0</b>            |
| <b>31.3 VAT</b>                                                                                                          |                      |                     |
| VAT inputs and VAT output are shown in Note 15. All VAT returns have been submitted by the due date throughout the year. |                      |                     |
| <b>31.4 PAYE and UIF</b>                                                                                                 |                      |                     |
| Opening balance                                                                                                          | 9,010,397            | 9,971,739           |
| Current year payroll deductions                                                                                          | 134,407,782          | 119,408,595         |
| Amount paid - current year                                                                                               | (123,561,830)        | (110,398,198)       |
| Amount paid - previous year                                                                                              | (9,010,397)          | (9,971,739)         |
| <b>Balance unpaid (included in creditors)</b>                                                                            | <b>10,845,952</b>    | <b>9,010,397</b>    |
| <b>31.5 Pension and Medical Aid Deductions</b>                                                                           |                      |                     |
| Opening balance                                                                                                          | 0                    | 0                   |
| Current year payroll deductions and Council contributions                                                                | 235,420,039          | 228,744,625         |
| Amount paid - current year                                                                                               | (235,420,039)        | (228,744,625)       |
| <b>Balance unpaid (included in creditors)</b>                                                                            | <b>0</b>             | <b>0</b>            |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

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

**31.6 Councillor's arrear consumer accounts**

|                                                                          | R             | R                       | R                       |
|--------------------------------------------------------------------------|---------------|-------------------------|-------------------------|
|                                                                          |               | <u>Outstanding less</u> | <u>Outstanding more</u> |
| Councillors had arrear accounts outstanding for more than 90 days as at: | <u>Total</u>  | <u>than 90 days</u>     | <u>than 90 days</u>     |
| <b>30 June 2007</b>                                                      |               |                         |                         |
| Councillor AVG Mfunda                                                    | 3,081         | 444                     | 2,637                   |
| Councillor M Nzotoyi                                                     | 3,662         | 2,542                   | 1,120                   |
| Councillor NM Makapela                                                   | 3,906         | 305                     | 3,601                   |
|                                                                          | <u>10,649</u> | <u>3,291</u>            | <u>7,358</u>            |

|                                                                          | <u>Total</u> | <u>Outstanding less</u> | <u>Outstanding more</u> |
|--------------------------------------------------------------------------|--------------|-------------------------|-------------------------|
| Councillors had arrear accounts outstanding for more than 90 days as at: |              | <u>than 90 days</u>     | <u>than 90 days</u>     |

**30 June 2006**

|                          |               |               |               |
|--------------------------|---------------|---------------|---------------|
| Councillor F Desi        | 922           | 0             | 922           |
| Councillor B S Greef     | 11,808        | 10,318        | 1,490         |
| Councillor M S Hote      | 644           | 0             | 644           |
| Councillor A C G Mfunda  | 3,619         | 278           | 3,341         |
| Councillor M M Nkewu     | 776           | 332           | 444           |
| Councillor S Ntonela     | 367           | 175           | 192           |
| Councillor C G Pietersen | 3,533         | 0             | 3,533         |
| Councillor Z J Qupe      | 3,600         | 377           | 3,223         |
|                          | <u>25,269</u> | <u>11,480</u> | <u>13,789</u> |

**31.7 List of entities and related transactions**

**Solely-controlled entities**

All entities are solely controlled by the Municipality and have received the following grants.:

|                                                                         | 2007<br>R         | Restated<br>2006<br>R |
|-------------------------------------------------------------------------|-------------------|-----------------------|
| 1. Nelson Mandela Bay Development Agency (See Note 35.6)                | 20,043,520        | 16,690,104            |
| 2. Centenary Hall Promotions                                            | 55,460            | 52,820                |
| 3. Feathermarket Hall Promotions                                        | 1,046,790         | 996,940               |
| 4. Nelson Mandela Metropolitan Art Museum                               | 0                 | 2,603,090             |
| <b>Total</b>                                                            | <u>21,145,770</u> | <u>20,342,954</u>     |
| Nelson Mandela Metropolitan Art Museum (treated as other organisations) |                   | (2,603,090)           |
| <b>Restated Grants to Solely-controlled Entities</b>                    | <u>21,145,770</u> | <u>17,739,864</u>     |

**Other organisations**

The Organisations have received the following grants:

|                                                              |                   |                   |
|--------------------------------------------------------------|-------------------|-------------------|
| 1. Uitenhage Despatch Development Initiative (See Note 35.6) | 2,553,200         | 2,400,000         |
| 2. Nelson Mandela Bay Tourism (See Note 35.6)                | 11,093,707        | 10,565,490        |
|                                                              | <u>13,646,907</u> | <u>12,965,490</u> |
| Nelson Mandela Metropolitan Art Museum                       | 3,189,270         | 2,603,090         |
| <b>Restated Grants to Other Organisations</b>                | <u>16,836,177</u> | <u>15,568,580</u> |

**31.8 Supply Chain Management Policy**

The Municipal Manager has the power to authorise deviations from the normal procurement process. The deviations for the 2006/07 financial year are detailed as follows:

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                 | CONTRACT VALUE                                                                                                                           | NAME OF SERVICE PROVIDER                                                                                   | APPROVAL DATE     | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | Emergency purchases during floods – 2/8/2006                             | R267 625,91                                                                                                                              | SA Foam & Mattress Servistar<br>C & K Hardware<br>African Textiles<br>KFC                                  | 23 August 2006    | In terms of Section 36(1)(i) of the SCMP. Due to a severe rain storm on 2 August 2006, many residents were forced to evacuate their homes and seek alternative shelter. This resulted in the following emergency purchases having to be made to respond effectively to the disaster situation:<br><br>Blankets<br>Foam mattresses<br>Plasting sheeting<br>Relief food                                                                   |
| 2   | Acquisition of additional computer aided draughting licenses             | R123 595,38                                                                                                                              | Micrographics                                                                                              | 21 September 2006 | (Section 36(1)(a)(v)). The GIS/Drawing Office acquired five AutoCAD 2007 software licences in the 2005/2006 budget year. Authority was sought by the Housing and Land Business Unit for the purchasing of three additional AutoCAD 2007 software licenses. It is deemed impractical to go out on tender, as other computer programmes are not compatible with the existing programme.                                                   |
| 3   | Flood Damage : Appointment of consultants to undertake emergency repairs | Professional fees be paid in terms of the provisions of the Engineering Council of SA Scale of Fees contained in Board Notice 30 of 2006 | Engineering Advice and Services CC<br><br>Iliso Consulting (Pty) Ltd<br><br>Stemele Bosch Africa (Pty) Ltd | 21 September 2006 | (In terms of Section 36(1)(a)(i)). Engineering Advice and Services CC – Design and Tender Stage, preparation of working drawings and construction stage of the construction of the intersection of Kragga Kamma Road and Circular Drive.<br><br>Iliso Consulting (Pty) Ltd – Design and Tender Stage, preparation of working drawings and construction stage of the construction of the bridge and ancillary works at Lower Valley Road |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER          | CONTRACT VALUE                  | NAME OF SERVICE PROVIDER                                 | APPROVAL DATE     | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|---------------------------------------------------|---------------------------------|----------------------------------------------------------|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4   | Flood damage repairs :<br>Van der Kemps Kloof Dam | R45 063,22<br>and<br>R16 911,31 | Gusha Civils L & P<br>Quarries JV with SRK<br>Consulting | 27 September 2006 | and Chelmsford Avenue.<br><br>Stemela Bosch Africa (Pty) Ltd – Design and Tender Stage, preparation of the construction of the bridge and ancillary works at William Moffett, 9 <sup>th</sup> Avenue, Walmer and Riverstone Road.<br><br>On 2 and 3 August 2006, extensive damage was caused by flood waters to the abovementioned roads. These facilities are key links in the road network and it has been necessary to undertake emergency repairs in order to restore traffic flows to normality.<br><br>In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>Authority was sought for the deviation from the calling for tenders in respect of urgent and necessary work to be undertaken on dam structures at Van der Kemps Kloof caused by flood damage. Gusha Civils L & P Quarries JV with SRK as Consulting Engineers was appointed to re-instate the dams at Van Der Kemps Kloof in 2005. Restructuring of the damaged area must be undertaken in a manner that links and ties into the civil work undertaken by Gusha Civils L & P Quarries JV. Civil works should be overseen and supervised by SRK who undertook similar work during the dam's re-instatement. |
| 5   | Purchase of suction pump for use in               | R77 505.00,<br>excl. of VAT     | Northfield Engineering                                   | 26 September 2006 | In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                               | CONTRACT VALUE | NAME OF SERVICE PROVIDER      | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----|------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | flooded Boundary Lane area                                                                                             |                |                               |                  | On 2 and 3 August 2006, extensive damage was caused by flood waters resulting in the flooding of Boundary Lane, which necessitated the urgent purchase of a specific high-head positive suction pump.                                                                                                                                                                                                                                          |
| 6   | Braai/Dinner ANC Retreat : 22/8/2006                                                                                   | R12 530        | Bobby's Food Empodium         | 5 September 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The Office of the Executive Mayor was requested at very short notice to provide dinner at the ANC Caucus Retreat held on 22 August 2006 due to the meeting extending longer than expected.                                                                                                                                                                           |
| 7   | Installation of station control and public address racks                                                               | R186 650,00    | Sysman Vunumphelo             | 17 August 2006   | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Authority was granted for the appointment of the current maintenance contractor and licensee to the original tender contract, to do additional work required for the installation of station control and public address racks at various fire stations in the Municipality.                                                                                          |
| 8   | Payment of Asante Management Consultants to undertake skills development analysis in respect of the Tourism Masterplan | R147 062,50    | Asante Management Consultants | 23 August 2006   | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Asante Management Consultants in association with Harley Sharpe Southern Africa was appointed to develop the Tourism Master Plan in line with the SCMP. The situational analysis identified the skills gap within the tourism industry, which was not part of the original scope of work. The lack of information in the secondary sources, posed a challenge to the |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                      | CONTRACT VALUE            | NAME OF SERVICE PROVIDER                   | APPROVAL DATE  | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|---------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9   | Upgrading of Synopsis Software                                                                                | R107 500.00, excl. of VAT | Synopsis Software                          | 15 August 2006 | consultants, as a comprehensive audit had to be undertaken. Asante had to conduct their own primary research and firm surveys. The appointment of other service providers was deemed to be impractical as they would lack insight in the Tourism Master Plan.<br>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>With Synopsis Software being the custodians and sole supplier of the current system, it is impractical to follow the official procurement process for the upgrade of the existing service request application to supply, install and provide end user training. |
| 10  | Approval to increase tender amount in respect of Armoury Project, Contract HL/000005, Sidwell, Port Elizabeth | R180 000                  | Zama Projects                              | 20 June 2006   | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The original tender in the amount of R1 811 885,16 was awarded to Zama Projects to construct the armoury at the Sidwell Traffic Department, Port Elizabeth. Some site works must be done to prepare for the installation of the security fence and to finish off some grassed areas adjacent to the armoury, which were not included in the contract. This will result in additional work to the value of R180 000.                                                                                                              |
| 11  | Purchase of Novell licences                                                                                   | R2 318 114,00             | State Information Technology Agency (SITA) | 11 July 2006   | Because of an increased demand, the purchase of additional Novell licences has become necessary. Approval was sought for the                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                       | CONTRACT VALUE                                                  | NAME OF SERVICE PROVIDER               | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12  | Payment of NMMU (Algoa Campus Classroom hired as a venue for EPWP learners) 1 March 2006 to 31 July 2006       | R11 237,70                                                      | Nelson Mandela Metropolitan University | 7 June 2006      | dispensing of the normal tendering procedures in terms of Section 36 (1)(a)(v) of the Supply Chain Management Policy. The reasons for requesting a deviation from the normal tendering process are as follows:<br><br>(a) The current system being used by the NMBMM is the Novell Network.<br>(b) The Novell Network is the only system compatible with the Municipality's current system.<br>(c) Novell Network is the only supplier of the system required by the NMBMM.                                                                                                                            |
| 13  | Drought relief strategy: Augmentation of Nooitgedagt Water Treatment Works: Appointment of consulting engineer | According to advertised fees applicable to consulting engineers | BKS (Pty) Ltd                          | 12 June 2006     | In terms of Section 36 (1)(a)(v) of the Supply Chain Management Policy. The official concerned was unaware of the fact that approval to deviate from normal procurement procedures should have been obtained prior to the rental of the classrooms.<br><br>In terms of Section 36 (1)(a)(i) and (v) of the Supply Chain Management Policy. The original consultants for the construction of the Nooitgedagt Water Treatment Works was BKS (Pty) Ltd. Due to the drought situation, there will be saving in time and cost, as certain of the design work would be a duplication of the previous design. |
| 14  | Repairs to Swartkops Mount Road 66 kV underground cable                                                        | R118 072,26, excl. VAT                                          | CBI Electric African Cables            | 21 November 2006 | In terms of Section 36(1) (a) (i) and (ii) of the Supply Chain Management Policy. CBI Electric African Cables is the sole supplier                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                | CONTRACT VALUE                                                                                    | NAME OF SERVICE PROVIDER                                                                                                                                                                                                             | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                    |
|-----|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15  | Lease of Ward Councillor offices from the private sector                                | R8 800                                                                                            | Ward 5 – Central Office (R2 000 pm)<br>Ward 9 – R2 000 pm<br>Ward 12 – Malabar Old Age Home (R800 pm)<br>Ward 34 - West End – R1 700 pm<br>Ward 40 – St Albans School (R800 pm)<br>Ward 52 – NG Church Office, Uitenhage (R1 500 pm) | 11 August 2006  | in the RSA.<br>In terms of Section 36 (1) (a) (v) of the Supply Chain Management Policy.<br>The procurement process was followed on two occasions, and only one response received. Because the process had been exhausted, there were still Ward Councillors who did not have offices and it was essential to place them.                                                                               |
| 16  | Emergency repairs to powerlines – August 2006 floods                                    | R24 470,85                                                                                        | Rangers Clutch and Break                                                                                                                                                                                                             | 19 October 2006 | In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>During the floods in August, widespread power failures were experienced. Due to the difficulty of access to various areas, a 4 x 4 crane truck with a driver and a 4 x 4 LDV were hired. This was an emergency, as no other suitable vehicles could be sourced from the annual contracts.                                     |
| 17  | Authority to extend services of KPMG Services : Physical verification of movable assets | R175 320 per month for two months, excluding VAT, and reimbursable disbursements, like travelling | KPMG Services                                                                                                                                                                                                                        | 7 August 2006   | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>In order for the Municipality to make a significant impact in the Auditor General's report for 2005/06, the physical verification of movable assets amongst others must be performed. According to the Asset Management Process Plan Schedule, the target date to complete the physical verification of movable assets as per |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                          | CONTRACT VALUE | NAME OF SERVICE PROVIDER                                             | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|-------------------------------------------------------------------|----------------|----------------------------------------------------------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18  | Contract HL0027 : Red Location Precinct : Phase 2                 | R2 999 241,00  | Noero Wolff Architects                                               | 1 August 2006 | the Asset Management Process Plan of Action tabled at the Audit Steering Committee was 31 August 2006. The contract for the physical verification exercise was awarded to KPMG Services, starting on 1 June 2006 to 30 June 2006. Due to budget constraints, the funds that were made available at the time could not cover the estimated three month period to complete the physical verification exercise.                                                                                                                                                                               |
| 19  | Procurement of Specialist Services : 2010 FIFA World Cup          | R1 220 000     | Grant Thornton<br>Stewart Scott and<br>Khuthele<br>NOH and Metroplan | 11 July 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy in order to allow for natural continuation of work carried out by the contractor on a previous occasion.<br><br>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. Is a natural continuation of work carried out by the contractor on a previous occasion and has cost saving implications to Council.                                                                                                                                                                                           |
| 20  | Purchase of milk formula from sole supplier : Nestlé SA (Pty) Ltd | R317 157,12    | Nestlé (SA) Pty Ltd                                                  | 22 May 2006   | In terms of Section 36(1)(a)(ii) of the Supply Chain Management Policy.<br><br>Approximately 1 700 malnourished children and babies born from HIV positive mothers are receiving Nan Pelargon as a nutritional supplement. The EC Department of Health was unable to supply the milk formula due to technical difficulties. ECDOC submitted a formal request to the Health Directorate for the acquisition of the milk to ensure that targeted beneficiaries are provided with the needed milk. Currently, the INP is using Pelargon Acidified Infant Formula as the preferred breast milk |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                  | CONTRACT VALUE                                           | NAME OF SERVICE PROVIDER                                                                                                                                                                                                             | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----|-----------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 21  | Tuberculosis Blitz Campaign                               | R300 000<br>(To be reimbursed by the EC Dept. of Health) | Various service providers – Caterers, buses, marquee tents, portable toilets. The event was cancelled due to floods, but the catering had to be prepared in advance. A cancellation fee was negotiated with other service providers. | 11 August 2006   | substitute. Nestlé South Africa (Pty) Limited is the sole manufacturer of this product.<br><br>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>In view of the short notice period and the level of logistical support required to ensure a successful event, approval was granted to dispense with the calling for tenders.                                                                                                                                                                                   |
| 22  | HIV and Aids Prevention Programme – Purchase of Equipment | R52 782,00                                               | Chapmar Industries CC                                                                                                                                                                                                                | 28 December 2006 | In terms of Section 36(i)(a)(v) of the Supply Chain Management Policy.<br>Due to the short period available to spend the allocated funds (31 December 2006), and the fact that the service provider is closing on 15 December 2006.                                                                                                                                                                                                                                                                                                     |
| 23  | Drafting and promulgation of By-laws                      | R252 000                                                 | ISGAD                                                                                                                                                                                                                                | 31 October 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Due to the volume of work, limited time period and budgetary constraints, it was decided to split the by-law drafting process into five main phases, which could be performed and addressed over a period of time. ISGAD was appointed for the First Phase of this project through the normal tendering process. It would have been a fruitless exercise to issue a tender for the presentation of the remaining four phases. It was also vital that ISGAD be |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                   | CONTRACT VALUE                                                                         | NAME OF SERVICE PROVIDER                                                                      | APPROVAL DATE  | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 24  | Reconstruction of Provincial Proclaimed Main Road No 450 – Addo Road – Appointment of consulting engineers | Tariff of Fees for persons registered in terms of the Engineering Profession Act, 2000 | P D Naidoo and Associates (Pty) Ltd, Nathoo Mbenyane Engineers and Uhambiso Consult (Pty) Ltd | 17 August 2006 | <p>afforded the opportunity to continue with the remaining phases for continuity and standardisation purposes.</p> <p>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.</p> <p>The construction of Addo Road was considered as a vital link to Motherwell and the need to improve traffic safety in the area. In this regard, an application for the allocation of an amount of R20 m was submitted to the European Union in terms of the MURP for the construction of Addo Road. At that time, the appointment of consultants to carry out the design, etc. was actively pursued in anticipation of the EU allocation being received. The allocation of these funds was not approved and the project did not proceed at that time.</p> <p>On 2 June 2005, the then Municipal Bid Committee resolved to appoint the firms P D Naidoo and Ass and Uhambiso Consult to carry out the design of Addo Road. On 19 June 2006, the Adjudication Committee recommended the appointment of P D Naidoo and Ass. and Nathoo Mbenyane Engineers Joint Venture. In terms of the above resolutions, a situation has now arisen that there are two different resolutions dealing with the appointment of consultants for the Addo Road project. Although at that stage, none of the consultants had been formally appointed, an expectation of work had been created. The</p> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                               | CONTRACT VALUE | NAME OF SERVICE PROVIDER | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----|----------------------------------------------------------------------------------------|----------------|--------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 25  | Increase in tender amount for centralised control centre, South End, Contract HL/00023 | R341 432,32    | Zama Projects            | 15 January 2007 | <p>situation was explained to the consultants concerned and agreement was reached that the work would be allocated among the consultants in a way that would be satisfactory to all parties.</p> <p>In terms of Section 36(i)(a)(v) of the Supply Chain Management Policy.</p> <p>Additional work to be carried out by Zama Projects on Contract HL/00023 to accommodate future security and system expansion for the Centralised Control Centre, South End. The main contractor, Zama Projects, as well as the four specialist nominated sub-contractors, are still in the process of completing the building work under the existing contract. In terms of the JBCC Principal Building Agreement, the contractor has a lien or right of continuing possession of the works, which remains in force until completion of the works. It is therefore contrary to the existing contract to allow another contractor to work on the site before completion is achieved. The main contractor could be requested to give written permission for this clause to be waived. However, this creates serious problems in terms of responsibility for defective work and possible damage to the work completed under the previous contract. All additional work will be costed in accordance with the rates tendered by the main contractor and nominated sub-contractors in their Bills of Quantities that formed part of the original tender documentation. Should new tenders be called</p> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                        | CONTRACT VALUE | NAME OF SERVICE PROVIDER  | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----|-------------------------------------------------------------------------------------------------|----------------|---------------------------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 26  | Rationalisation of Entities Project : Extension of brief to include Culture and Heritage Entity | R184 800       | BDO Spencer Steward       | 22 December 2006 | for, the tenderers would price for site establishment costs, setting up site, storage sheds, offices, etc. These sites establishment costs are already costed by the existing contractor as Preliminaries and General costs in the Bills of Quantities, and are therefore not re-costed in the rates for the proposed additional work.                                                                                                                                                                                 |
| 27  | Procurement of books from Juta and Company                                                      | R2 311,00      | Juta and Company          | 28 November 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The extension of the brief to include the Culture and Heritage Entity as well as the municipal facilities, would be expensive if thorough scrutiny and investigation were done for each entity/project.<br>In terms of Section 36(1)(a)(ii) of the Supply Chain Management Policy.<br>Juta and Company are the publishers and distributors of the requested books. No other company distributes the books and it is therefore sole supplier. |
| 28  | Maintenance to Nelson Mandela Art Museum                                                        | R600/hr        | Stauch Vorster Architects | 22 November 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The appointment of Stauch Vorster Architects will be a natural continuation of work and will result in a significant cost-saving benefit to the Council, as their office hold extensive records and drawings of the Art Museum. Since the 1990s they have designed and supervised extensions to the main hall and the arts hall and have been in constant consultation regarding                                                             |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                               | CONTRACT VALUE                            | NAME OF SERVICE PROVIDER        | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----|----------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 29  | Critical cable fault location by Verotest (Pty) Ltd                                    | R22 981,26                                | Verotest (Pty) Ltd              | 3 October 2006  | the problems with both roofs. Steuch Vorster reduced the normal hourly rate from the industry rate of R800 to R600 per hour because he already has all the structural records of the museum building.<br>In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>A high-resistance cable fault recently settled in on the Northdowns – Willard No. 1 22 kV feeder. The Directorate's Fault Location Section, with its own resources, tried everything possible over a period of time to locate the fault, but was unsuccessful. Due to the emergency of repairing the cable in the shortest possible time, it was decided to utilise the assistance of an accredited contractor. A lengthy tender procedure in procuring the necessary assistance would not have been in the interest in solving the problem timeously. |
| 30  | Motherwell Creative Arts Centre : Professional facilitators and community facilitators | Not exceeding R5 000 per month per person | Various Specialised Art Mentors | 3 October 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>In lieu of no policy in place in the NMBM regarding the scoping and implementation of community-based arts projects and in the context of the unit having to identify specialists at the negotiated rate of R5 000 per month to implement the creative industry projects.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 31  | Maintenance Software Renewal ADBS (Action Driven Balanced                              | Vote OK 187045 Budget :                   | QVCS Africa                     | 27 October 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>QVCS Africa is the only company able to supply                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                                                                            | CONTRACT VALUE                           | NAME OF SERVICE PROVIDER                                             | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | Scorecard)<br>Performance Management System                                                                                                                         | R890 400<br>Expenditure to date: R80 000 |                                                                      |                  | the required further licences.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 32  | Contract 5398(S) :<br>Replacement of Heat Treatment Sewer at Fishwater Flats Water Treatment Works :<br>Increase in contract amount and amendment of project budget | R511 692.60, inclusive of VAT            | Masakeni Construction (Pty) Ltd                                      | 31 October 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Due to a number of design modifications affecting the scope of work, the total contract cost has increased by approximately 29,3%.<br>The increase in the contract cost resulted mainly from extra pipework that had to be installed in order to connect services that were not linked/provided for in the original design.                                                                                                           |
| 33  | Motherwell Arts and Culture Centre                                                                                                                                  | R115 500                                 | School of Architecture of the Nelson Mandela Metropolitan University | 22 November 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The first phase of the development, being the Motherwell Community Support Centre, was designed by the NMMU School of Architects and funded by SIDA that supports this type of skills development. The proposed development abuts the first phase that was funded by SIDA. The NMMU charges a lower fee than the standard one of SAICE. The urgency to commence, as the SIDA funding had to be spent before the end of December 2006. |
| 34  | Emergency repairs to substation                                                                                                                                     | R24 000                                  | Den Hangen Contractor CC                                             | 31 October 2006  | In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>A substation wall was completely destroyed as a result of an explosion of the substation equipment. The wall was temporarily fixed with corrugated iron sheets. Some of the sheets were stolen, exposing the equipment to further                                                                                                                                                                                                     |



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                       | CONTRACT VALUE                | NAME OF SERVICE PROVIDER              | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----|----------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 35  | Nooitgedagt Water Treatment Works : Repairs to final water pumps                                               | R285 086,75, exclusive of VAT | Sulzer (South Africa) Ltd             | 23 October 2006 | theft and vandalism. In addition, an extremely dangerous situation was created where the public could enter these substations and be exposed to live electrical equipment.<br>In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>Due to the nature of the work and the water situation in the Municipality it was regarded as an emergency and therefore it was not possible to follow the normal tendering procedure.                                                                                                                                                                                                                                                  |
| 36  | Appointment of contract management and administration company : Alterations to NU30 Community Hall, Motherwell | R187 672,24                   | Matrix Urban Designers and Architects | 23 October 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Matrix Urban Designers and Architects was appointed to design the extension of the NU3 Hall to a 420 seater capacity community hall in accordance with the R850 000 available on the budget. However, applications for alternative funding were successful and funding was granted to extend the hall capacity to the tune of R3 million. As Matrix Urban Designers and Architects was already on site and was busy with the architectural designs for a smaller hall, their scope of work was subsequently increased to design a hall that could accommodate 950 to 1000 people – in line with the community needs. |
| 37  | Payment of catering : Presidential Imbizo 9 to 10 September 2006                                               | R110 000                      | Simunye Caterers                      | 3 October 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Because of the time factor, verbal quotations were sourced for the provision of lunch packs on the occasion of the Presidential Imbizo held on 9 to 10 September 2006, and not written                                                                                                                                                                                                                                                                                                                                                                                                                               |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                        | CONTRACT VALUE                                 | NAME OF SERVICE PROVIDER                                                                                                                                                                                     | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 38  | Approval for payment to Zip Zap Circus (Cape Town) as sole trainers for Motherwell Creative Arts Centre Project | R7 717,80                                      | Zip Zap Circus School                                                                                                                                                                                        | 13 November 2006 | quotations, as required by Section 12(1)(c) of the Supply Chain Management Policy.<br><br>In terms of Section 36(1)(a)(ii) of the Supply Chain Management Policy.<br>On the grounds that extensive investigation has revealed the reasonable availability of only one Circus School, i.e. Zip Zap.                                                                                                                                                                                                                                                                                                                |
| 39  | Voltage transformer for LMT switchgear                                                                          | Two units at R38 660<br>Nine units at R198 000 | ABB SA (Pty) Ltd                                                                                                                                                                                             | 30 November 2006 | In terms of Section 36(1)(a)(i) and (ii) of the Supply Chain Management Policy.<br>The ABB voltage transformers are an integral component of the ABB switchgear used to provide a metered electricity supply to major consumers. Additional units of ABB voltage transformers were purchased from the sole supplier, i.e. ABB SA (Pty) Limited, to replenish depleted stock urgently required. Since normal delivery is quoted as twelve weeks and major consumers were currently unmetered without these voltage transformers, the procurement of these units was considered to constitute an emergency measure. |
| 40  | Payment to trucking contractors for the relocation of families                                                  | R105 800                                       | Umtha cc – 24 families<br>James Ngqandu – 38 “<br>M A Mongo – 39 “<br>Nepto Trading cc – 47 “<br>Thobile E Tom – 42 “<br>Patutu Ntamo - 40 “<br>K E Holejane – 32 “<br>S A Mrwebo – 45 “<br>W M Vonqo - 45 “ | 18 December 2006 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                                  | CONTRACT VALUE                   | NAME OF SERVICE PROVIDER                                                                 | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                               |
|-----|---------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------------------------------------------------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 41  | Annual contract :<br>maintenance of server<br>which hosts the<br>computer software of<br>the libraries                    | R4 677,42 per<br>month           | M DNdimba – 38 “<br>L S Ndimba – 27 “<br>M M Ndimba – 43 “<br>Total 460 families<br>HPSA | 7 December 2006  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>HPSA is the only service provider in the Eastern Cape to provide site management in respect of the annual contract for the maintenance of the Unix Operating System being utilised by the Libraries.                                                                                                     |
| 42  | Railway safety<br>regulator – Application<br>for Rail Safety Permit –<br>Appointment of<br>specialist service<br>provider | R38 500                          | Sheltam Grindrod (Pty)<br>Ltd                                                            | 15 December 2006 | In terms of Section 36(1)(a)(ii) of the Supply Chain Management Policy.<br>The firm Sheltam Grindrod (Pty) Ltd is the only suitably skilled local service provider to process a Railway Safety Permit application to the required standard.                                                                                                                                        |
| 43  | Repairs to faulty air<br>conditioners at<br>Pleinhuis                                                                     | R13 304,<br>exclusive of<br>VAT  | Industrial<br>Thermodynamics cc                                                          | 25 January 2007  | In terms of Section 36(1)(a)(i) and (v) of the Supply Chain Management Policy.<br>Pleinhuis employees were working under unbearable and unhealthy conditions as a result of the non-functioning of the air conditioner and the fact that the network file server in that building malfunctioned due to overheating resulting in the loss of back-up from October to December 2006. |
| 44  | Renewal of Progress<br>Software Licences                                                                                  | R214 794,<br>exclusive of<br>VAT | Sysnet Cape CC                                                                           | 9 February 2007  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Progress Software (Pty) Ltd requires that the original distributor supplying the actual licences,                                                                                                                                                                                                        |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                       | CONTRACT VALUE               | NAME OF SERVICE PROVIDER | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|------------------------------------------------------------------------------------------------|------------------------------|--------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 45  | Repairs to computerised weighbridge : Arlington Waste Disposal Site                            | R19 684,20, exclusive of VAT | SA Scale Co              | 9 February 2007 | handle the renewal of licences. Should the licences not be renewed, the hourly rate will cost R500,00 and to buy the latest Progress Software version will cost R2 742 050,00. The renewal of the licences is therefore in the best financial interest of the Municipality.<br>In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy.<br>Urgent repairs to the weighbridge were required, as any delays would result in lengthy queues at the entrance to the sites, which in turn would have a negative effect on the productivity of the Municipality's refuse collection service. It would also result in unhappiness among the private sector using the sites extensively and could result in an increase in illegal dumping, which in turn could impact negatively on the health and safety of the Municipality's residents. |
| 46  | Payment to Simunye Caterers for the National Youth Service Volunteer Campaign Launch Programme | R24 000, inclusive of VAT    | Simunye Caterers         | 9 February 2007 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The Youth Service Volunteer Campaign Launch Programme was held on 19 December 2006. Altogether 800 volunteers attended the launch and lunch was required for the occasion. Caterers were contacted to source the required three quotes, but many companies were closed for business during the holiday period. Simunye Caterers was the only company able to provide the service at short notice.                                                                                                                                                                                                                                                                                                                                                                       |
| 47  | Replacement of IT                                                                              | R60 602,50                   | Dimension Data           | 9 February 2007 | In terms of Section 36(1)(a)(v) of the Supply                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| <b>NO.</b> | <b>CONTRACT DESCRIPTION/<br/>CONTRACT NUMBER</b>                                                         | <b>CONTRACT VALUE</b>      | <b>NAME OF SERVICE PROVIDER</b> | <b>APPROVAL DATE</b> | <b>REASON FOR DEVIATION</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------|----------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|            | Server Security Device Equipment for the Pre-Payment Vending and Meter Reading Systems                   |                            |                                 |                      | Chain Management Policy.<br>*The equipment required is a small element of an existing larger network configuration and the introduction of another service provider will make it impossible to determine responsibility and attribute accountability in the case of a communication problem or security leak, which would seriously affect the operation of the system.<br>*It is critical that the supplier of the Security Devices (Fire Walls) fully understands ALL elements of the configuration and networking of our current systems in order to ensure uninterrupted effective operation of the Prepayment Vending and Meter Reading Systems. Therefore, the risk is too high to allow another supplier to become involved in a critical but small element of the current security and network layouts.<br>*All the configurations, setup of IP addresses, routers, switches and security devices in respect of the system were originally procured from, installed, and commissioned, and are currently being managed and maintained by Dimension Data. |
| 48         | Modifications and additions to the IVR Electronic Help Desk for the Electricity and Energy Business Unit | R106 000, exclusive of VAT | Siemens                         | 9 February 2007      | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>In terms of the IVR contract between the NMBM and Siemens Business Services (Contract 1737 Annexure B), Siemens Business Services is the only company that can do these modifications                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                               | CONTRACT VALUE                                                                                                  | NAME OF SERVICE PROVIDER                | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 49  | Upgrade of GIMS Valuations Tool Programme                              | GIMS Valuation Tool Program and training : R48 564,00, incl. VAT and annual maintenance : R23 085,00, incl. VAT | GIMS (Pty) Ltd                          | 1 March 2007  | and additions for the Directorate.<br>In terms of Section 36(1)(a)(ii) of the Municipal Supply Chain Management Policy.<br>GIMS (Pty) Ltd is the only accredited distributor in SA who is allowed to conduct and deliver official ESRI training courses related to the ESRI product range.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 50  | Extension of lease : Portion of 7 <sup>th</sup> floor : Fidelity House | R20 415,12 per month for the full 482 m <sup>2</sup>                                                            | Apexhi Properties Limited – Agent Broil | 1 March 2007  | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>The Budget and Treasury Directorate leases the entire seventh floor, Fidelity House measuring 482 square meters. The lease of offices measuring 112 square meters expires on 31 August 2009, while the lease of the larger portion, measuring 370 square meters, expires on 31 March 2007. Both leases mentioned include the option to renew. It was therefore considered impractical to call for tenders, and the lease of 370 square meters of the seventh floor, Fidelity House, which expires on 31 March 2007, was amended by extending the expiry date to 31 August 2009 to coincide with the expiry date of the 112 square meters also being leased. |
| 51  | Three-year software support contract for ecWIN Automated               | R72 000 for the first year, R79 200 for the                                                                     | IST Holdings (Pty) Ltd                  | 1 March 2007  | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>The Electricity and Energy Directorate procured                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                      | CONTRACT VALUE                     | NAME OF SERVICE PROVIDER         | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----|---------------------------------------------------------------|------------------------------------|----------------------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | Meter Reading System and Web Server                           | second year, R87 120 for the third |                                  |               | the ecWIN AMR system and Web Server from IST Holdings (Pty) Ltd in 2003 (PEE3213). The system is used for the collection of commercial and industrial metering and billing data and hosts a web server for large electricity power users. The system currently hosts approximately 300 remotely read large business meters (150 customers) and an additional approximately 850 smaller business meters. Electricity metering data for billing to the value of approximately R65m per month is collected via this system. A technical support agreement with IST Holdings (Pty) Ltd, the suppliers of the software, has been renewed annually since 2004. The current extended system support contract will terminate at the end of February 2007. It is essential that a system support contract be in place at all times, as the directorate does not have the expertise to maintain the system. As IST Holdings (Pty)Ltd is the author, licensor and sole supplier of the EcWIN software, it would be a fruitless exercise to follow the normal procurement procedure. |
| 52  | Installation of two 66 kV straight through joints : Uitenhage | R45 692.25, excl. VAT              | CBI Electric Power Installations | 1 March 2007  | In terms of Section 36(1)(a)(i) and (ii) of the Municipal Supply Chain Management Policy. CBI Electric Power Installations is the sole provider of this type of service in the country. Due to the nature of the fault, it was imperative to carry out emergency repairs to the damaged cable in order to reinstate supply to the KwaNobuhle area as soon as possible.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                             | CONTRACT VALUE         | NAME OF SERVICE PROVIDER | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----|----------------------------------------------------------------------|------------------------|--------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 53  | Upgrade of existing ecWIN Software and addition of month-end reports | R149 111.00, excl. VAT | IST Holdings (Pty) Ltd   | 1 March 2007  | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>The Electricity and Energy Business Unit procured the ecWIN AMR system and Web Server from IST Holdings (Pty) Ltd in 2003 (PEE3213). The system is used for the collection of commercial and industrial metering and billing data and hosts a web server for large electricity power users. The system currently hosts approximately remotely read large business meters (150 customers) and an additional approximately 850 smaller business meters Electricity metering date for billing to the value of approximately R65 m per month is collected via this system. The current software license is limited to 1 000 customer accounts. With the recent addition of Uitenhage, Despatch and the Coega IDZ plus the normal business customer growth in the Municipality, the system has exceeded the 1 000 limit and needs to be upgraded. Additional month-end reporting modules and software development are required to include the upload of metering data from other meter types. As IST Holdings (PTY) Ltd is the author, licensor and sole supplier of the ecWIN software, as stated on the attached document, it would be a fruitless exercise to follow the normal procurement procedure. |
| 54  | Increase in contract sum : Contract 2086 : Alterations,              | R90 000                | Unempundry Logistics     | 1 March 2007  | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>The additional work was undertaken as a matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                               | CONTRACT VALUE                                                                                                                                                          | NAME OF SERVICE PROVIDER                                                                                           | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                |
|-----|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | renovations and additions to Customer Care Centre at Daleview                                                          |                                                                                                                                                                         |                                                                                                                    |                  | of urgency due to the need to secure municipal property/assets, such as computer equipment, faxes and copy machines, at the centre and the service provider was already on site.                                                                                                                                    |
| 55  | Hosting of Growth and Development Summit Stakeholder Engagement Workshop : 8 and 9 March 2007, Coega Village           | R109 440                                                                                                                                                                | Coega Conference Centre                                                                                            | 1 March 2007     | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>The Coega Conference Centre was the only venue available on 8 and 9 March 2007 that could accommodate the number of people expected to attend the event.                                                                                  |
| 56  | Increase in contract sum: Contract 2085: Alterations, renovations and additions to Customer Care Centre at Mthomolwazi | R90 000                                                                                                                                                                 | T A Builders                                                                                                       | 1 March 2007     | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>The additional work was undertaken as a matter of urgency due to the need to secure municipal property/assets, such as computer equipment, faxes and copy machines, at the centre and the service provider was already on site. |
| 57  | Moral Regeneration Movement Awareness Programme – 16 December 2006                                                     | R16 895 (excl. VAT) for golf T-shirts<br>R2 915 (excl. VAT) for baseball caps<br>R5 990 (excl. VAT) for PVC banner<br>R3 510 (incl. VAT) for brochures<br>R3 900 (excl. | Reflec (Pty) Ltd<br>Rizzla Graphics and Advertising<br>Nxa-Nthatu Silkscreen and Printing<br>Stage and Audio Works | 13 February 2007 | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.<br>Due to time constraints, as well as the difficulty to engage service providers during the annual shutdown over the festive season, deviation from the procurement procedure was necessary.                                      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                       | CONTRACT VALUE                                                                            | NAME OF SERVICE PROVIDER | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----|----------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     |                                                                | VAT) for audio visual equipment R2 600 for transport of 30 volunteers R3 350 for catering |                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 58  | Emergency repairs at the KwaNobuhle Wastewater Treatment Works | R110 600                                                                                  | URSA Concrete            | 26 March 2007   | In terms of Section 36(1)(a)(i) of the Supply Chain Management Policy. Unforeseen costs were incurred when URSA Concrete was requested to assist in carrying out emergency repairs at the Wastewater Treatment Works in KwaNobuhle. URSA was currently busy with another contract only 10 km away.                                                                                                                                                                                                                                                                                                                                                                                                 |
| 59  | Training requirements : Safety and Security Directorate        | R632 000                                                                                  | ISGAD                    | 3 November 2006 | In terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy. During February 2006 the Safety and Security Directorate (Security Division), through the tender process, called for the provision of investigating training (detective development), as a specialised learning field for the Investigation Unit of the Security Division. The only responsive tender received was that of the Nelson Mandela Metropolitan University, Institute for Sustainable Governance and Development (ISGAD). It was the opinion that it would have been a fruitless exercise to issue a tender for the presentation of Module 1 to the additional 80 security officers. It was vital that |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                                                                                                | CONTRACT VALUE            | NAME OF SERVICE PROVIDER  | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 60  | Request for shortening of informal tendering period : Appointment of service provider to assist in consolidation of inputs during the process towards the Growth and Development Summit | -                         | -                         | 23 March 2007 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. Authority was granted for the reduction of the tender period from seven to three days in respect of the appointment of a service provider for the preparatory workshop of the Growth and Development Summit held on 8 and 9 March 2007.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 61  | Upgrade and maintenance of software package                                                                                                                                             | R48 452, exclusive of VAT | Iyanda Power Technologies | 23 March 2007 | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. COGNICASE-CYME is the author and licensor of the CYMGRD software used by the NMBM Electricity and Energy Directorate. COGNICASE-CYME appoints an exclusive agent to sell, renew licences and support their software. Their appointed agent in South Africa is Iyanda Power Technologies (Pty) Ltd. There is currently one Network licence, which needs upgrading and maintenance. The cost to upgrade and maintain versus the development of a new software package is enormous. It will take at least three years for any company to develop this software coupled with the existing data on the database. Taking into consideration the cost and time that will be needed to develop a new package, it is simply not practical for this |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                                       | CONTRACT VALUE                                                                  | NAME OF SERVICE PROVIDER                                                                   | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 62  | Civic Entertainment<br>SAFA Soccer Match –<br>25 March 2007                                                                    | R21 900                                                                         | EPRU Stadium -<br>R11 400<br>Bojangles - R6 500<br>Spot-On Independent<br>liquors - R4 000 | 26 March 2007 | Directorate to consider.<br><br>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>On instruction of the Executive Mayor, the Office of the Speaker was requested to arrange for Councilors to attend the SAFA soccer match between Kaizer Chiefs and Bloemfontein Celtics on Sunday, 25 March 2007. The Executive Mayor viewed this as another opportunity to update the provincial and national guests on the readiness of the Municipality. SAFA sponsored 53 tickets, and Council had to incur expenditure for the remaining 67 Councilors, catering and drinks. Tickets and catering were obtained from the sole supplier at the stadium, and the drinks procured from a Municipal Standing Contract. |
| 63  | Modifications at Kelvin<br>Jones Waste Water<br>Treatment Works :<br>Increase in approved<br>contract price –<br>Contract 5175 | R804 711,35,<br>inclusive of<br>VAT, which will<br>be subject to<br>escalation. | URSA Civils                                                                                | 2 April 2007  | In order to compensate for unforeseen costs that only manifested themselves during construction, the invitation of tenders be dispensed with in terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 64  | Appointment of a<br>professional service<br>provider for proposed<br>upgrade of the Langa<br>Memorial, Uitenhage               | R225 000,00,<br>inclusive of<br>VAT                                             | Adendorff Architects<br>and Interiors                                                      | 14 May 2007   | In terms of Section 36(1)(v) of the Supply Chain Management Policy.<br>Because of the uniqueness of the project, i.e. being a Memorial and having been advertised as a design competition.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 65  | Signage, additions and<br>alterations to the 2010<br>Directorate offices                                                       | Signage –<br>R1 707,<br>exclusive of                                            | Signage – Green<br>Room Design<br>Company                                                  | 16 May 2007   | In terms of Section 36(1)(v) of the Supply Chain Management Policy.<br>The Green Room Design Company was                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                                                      | CONTRACT VALUE                                                       | NAME OF SERVICE PROVIDER                                                    | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     |                                                                                                                                               | VAT<br>Additions and alterations – R29 668.00, exclusive of VAT      | Alterations and Additions – Africorp International Properties (Pty) Limited |               | responsible for the original signage on the windows as well as the signage in the lobby. It would be impractical to involve a different service provider for the additions and alterations to the offices, since the original layout of the offices was done by Africorp. They already had a floor plan and the new alterations and additions should fit in with the existing offices since most of the floor space on the fourth floor is still occupied by EDTA and after completion of the 2010 FIFA World Cup the offices will be occupied by EDTA again. |
| 66  | Appointment of proposed service provider for proposed enclosure of the Newton Park Swimming Pool : Erf 2178, Newton Park -- Contract HL/00043 | Total consultants fees not to exceed R1 213 059.16, exclusive of VAT | Thembela Architects                                                         | 14 May 2007   | As this project was advertised as an open competition for all registered professional architects within the Municipality, the invitation of tenders be dispensed with in terms of Section 36(1)(a)(v) of the Municipal Supply Chain Management Policy.                                                                                                                                                                                                                                                                                                        |
| 67  | Payment for breakfast served at City Hall : Kaizer Chiefs and Bloemfontein Celtic's Soccer Match – 25 March 2007                              | R1 500                                                               | Bobby's Food Emporium                                                       | 2 April 2007  | Due to the late notification of the proposed breakfast and the difficulty in obtaining the required number of quotes from service providers, the invitation of tenders was dispensed with in terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.                                                                                                                                                                                                                                                                                              |
| 68  | Repair of stump grinder                                                                                                                       | R24 084,55, inclusive of VAT                                         | Johnny Alberts Earthmoving Repairs CC                                       | 2 April 2007  | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. Johnny Alberts Earthmoving Repairs CC was the only service provider willing to strip the machine and quote on it. The machine was                                                                                                                                                                                                                                                                                                                                                      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                    | CONTRACT VALUE                | NAME OF SERVICE PROVIDER         | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|-----------------------------------------------------------------------------|-------------------------------|----------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 69  | Repairs to macerators at Creek Sewerage Pumping Station                     | R164 410.00, exclusive of VAT | Northfield Engineering (Pty) Ltd | 19 April 2007 | <p>duly stripped to identify the fault and was standing in parts in his workshop. To have this procedure repeated by another service provider would have been impractical, and that division would fall further behind with its work backlog.</p> <p>In terms of Section 36(1)(a)(i) and (ii) of the Supply Chain Management Policy.</p> <p>On 28 March 2007, a long metal stove found its way into the Industrial stream of one of the environmental channel monster twin shaft grinders, bent the shaft extension and burnt out an electric motor. In order to keep Creek Pump Station operational, it was necessary to send mixed flows, i.e. industrial and domestic effluent in a common line to Fishwater Flats Waste Water Treatment Works. This interim emergency arrangement is contrary to the standards laid down by the Dept. of Water Affairs and Forestry, as the industrial effluent contains heavy metals, which require specialised treatment. Because of these reasons, the repairs had to be effected on an emergency basis. Northfield Engineering (Pty) Ltd are the sole distributors of macerators in the Eastern Cape.</p> |
| 70  | Follow-up Strategic Planning Session – Corporate Administration Directorate | -                             | Phumeza Mthombeni and Associates | 7 May 2007    | <p>In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.</p> <p>-The second session would be a continuation of the first session.</p> <p>-The said consultants would know where to pick up and proceed in line with the Corporate</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                             | CONTRACT VALUE                                 | NAME OF SERVICE PROVIDER            | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----|--------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 71  | GIS Software Maintenance                                                             | R1 058 069,62                                  | GIMS                                | 8 June 2007   | Administration and Municipality's goals and objectives.<br>-The said consultants quoted far less than the competitors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 72  | Urgent repairs to Chatty-Motherwell 132 KV Overhead Distribution Line                | R203 007,06, exclusive of VAT                  | Conco                               | 8 June 2007   | In terms of Section 36(1)(a)(i) and (ii) of the Supply Chain Management Policy.<br>On 2 February 2007, an articulated vehicle collided with one of the Chatty-Motherwell 132 kV overhead line towers. Temporary repairs were carried out to the overhead line to ensure continuity of supply to the north-eastern areas. Due to the nature of the present overhead crossing, albeit safe, permanent repairs were required to the overhead line to restore it to normal. A specialist contractor (Conco), capable of effecting permanent repairs to the overhead line, was undertaking overhead line construction work in Port Elizabeth. |
| 73  | Contract 2110 -- Occupational medical screening and surveillance                     | R108 300 / m until 31 December 2007            | Dr J Lapere                         | 8 June 2007   | In terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.<br>Continuation of project by the current experienced service provider.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 74  | Request for extension of project management services for NMBM to participate in RED3 | R275,00 /h, exclusive of VAT, for a period not | J C Engineering Consulting Services | 8 June 2007   | Because of the importance for the continuation of the current experienced project manager for the NMBM RED 3 creation process, the invitation of tenders was dispensed with in                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007  
31.8 Supply Chain Management Policy (continued)**

| NO. | CONTRACT DESCRIPTION/<br>CONTRACT NUMBER                                                                       | CONTRACT VALUE                                         | NAME OF SERVICE PROVIDER       | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                           |
|-----|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | Creation Process                                                                                               | exceeding 500 hours, total being R157 675,00.          |                                |               | terms of Section 36(1)(a)(v) of the Supply Chain Management Policy.                                                                                                                                                            |
| 75  | Increase in contract amount : Contract 2061 : New Brighton Oval Rugby Field                                    | R159 809,78                                            | Akhiwa and Abemi Joint Venture | 8 June 2007   | Because of unforeseen costs having been incurred resulting in an increase in the approved contract amount, the invitation of tenders was dispensed with in terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. |
| 76  | Increase in contract amount: contract 5367: construction of civil engineering infrastructure at Chatty 3 and 4 | R1 160 520, inclusive of VAT and subject to escalation | Masakeni Construction          | 8 June 2007   | Because of unforeseen costs having been incurred resulting in an increase in the approved contract amount, the invitation of tenders was dispensed with in terms of Section 36(1)(a)(v) of the Supply Chain Management Policy. |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                                                                                                                                                         | 2007<br>R            | Restated<br>2006<br>R |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| <b>32 CAPITAL COMMITMENTS</b>                                                                                                                                                                                                           |                      |                       |
| <b>Approved and contracted for</b>                                                                                                                                                                                                      | 1,338,501,998        | 278,906,634           |
| Infrastructure                                                                                                                                                                                                                          | 378,079,175          | 221,811,571           |
| Community                                                                                                                                                                                                                               | 960,422,823          | 488,995               |
| Other                                                                                                                                                                                                                                   | 0                    | 56,606,068            |
| <b>Approved but not yet contracted for</b>                                                                                                                                                                                              | 53,768,560           | 15,023,967            |
| Infrastructure                                                                                                                                                                                                                          | 42,010,033           |                       |
| Community                                                                                                                                                                                                                               | 8,564,817            |                       |
| Other                                                                                                                                                                                                                                   | 3,193,710            | 15,023,967            |
| <b>Total</b>                                                                                                                                                                                                                            | <b>1,392,270,558</b> | <b>293,930,601</b>    |
| <b>This expenditure will be financed from:</b>                                                                                                                                                                                          |                      |                       |
| Capital Replacement Reserve                                                                                                                                                                                                             | 50,006,181           | 107,886,253           |
| Grants and Subsidies                                                                                                                                                                                                                    | 1,288,446,600        | 152,182,231           |
| RSC Levies                                                                                                                                                                                                                              | 53,591,204           | 33,862,117            |
| Contribution to Capital                                                                                                                                                                                                                 | 226,573              |                       |
| <b>Total</b>                                                                                                                                                                                                                            | <b>1,392,270,558</b> | <b>293,930,601</b>    |
| <b>33 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>                                                                                                                                                                           |                      |                       |
| Long-term liabilities (See Note 2)                                                                                                                                                                                                      | 213,833,597          | 413,256,746           |
| Used to finance property, plant and equipment - at cost                                                                                                                                                                                 | 0                    | 0                     |
| Sub-total                                                                                                                                                                                                                               | 213,833,597          | 413,256,746           |
| Cash set aside for the repayment of long-term liabilities (See Note 2)                                                                                                                                                                  | 18,763,885           | 26,370,082            |
| <b>Cash invested for repayment of long-term liabilities</b>                                                                                                                                                                             | <b>232,597,482</b>   | <b>439,626,828</b>    |
| <b>34 RETIREMENT BENEFIT INFORMATION</b>                                                                                                                                                                                                |                      |                       |
| Council contributes to three defined contribution funds and two defined benefit funds. The latter funds are fully funded as at the last actuarial valuation. Current contributions are sufficient to support the benefits of the funds. |                      |                       |
| <b>35 RESTATED PRIOR YEAR COMPARATIVES</b>                                                                                                                                                                                              |                      |                       |
| <u>Statement of Financial Performance</u>                                                                                                                                                                                               |                      |                       |
| <b>35.1 Net effect on surplus</b>                                                                                                                                                                                                       |                      |                       |
| Service Charges (refer Note 19) - restated in consumer debtors                                                                                                                                                                          |                      | (43,783,880)          |
| Regional Service Levy - Turnover (refer Note 20) - restated in other debtors                                                                                                                                                            |                      | (3,258,519)           |
| Regional Service Levy - Remuneration (refer Note 20) - restated in other debtors                                                                                                                                                        |                      | (8,183,333)           |
| Other income (refer Note 22) - restated in other debtors                                                                                                                                                                                |                      | (1,581,524)           |
| General expenses (refer Note 35.7 below)                                                                                                                                                                                                |                      | 17,874,953            |
| Contributions from                                                                                                                                                                                                                      |                      | (253,946,124)         |
| Contributions to/(from) provisions                                                                                                                                                                                                      |                      | 87,586,125            |
| Government grants and subsidies                                                                                                                                                                                                         |                      | (156,132,005)         |
| <b>Net effect on surplus for 2005/2006</b>                                                                                                                                                                                              |                      | <b>(361,424,307)</b>  |
| <b>35.2 Service Charges</b>                                                                                                                                                                                                             |                      |                       |
| Balance as per audited financial statements                                                                                                                                                                                             |                      | 1,529,951,944         |
| Sale of water understated (see Note 19)                                                                                                                                                                                                 |                      | 20,139,285            |
| Sale of electricity understated (see Note 19)                                                                                                                                                                                           |                      | 23,644,594            |
| <b>Restated Balance</b>                                                                                                                                                                                                                 |                      | <b>1,573,735,823</b>  |
| Service charges in respect of water in the amount of R20 139 285 has been restated in respect of the 2005/06 financial year.                                                                                                            |                      |                       |
| Service charges in respect of electricity in the amount of R23 644 595 has been restated in respect of the 2005/06 financial year.                                                                                                      |                      |                       |
| <b>35.3 Regional Services Levies - turnover</b>                                                                                                                                                                                         |                      |                       |
| Balance as per audited financial statements                                                                                                                                                                                             |                      | 65,433,482            |
| Regional Service Levy - Turnover (see Note 20)                                                                                                                                                                                          |                      | 3,258,519             |
| <b>Restated Balance</b>                                                                                                                                                                                                                 |                      | <b>68,692,001</b>     |
| <b>35.4 Regional Services Levies - remuneration</b>                                                                                                                                                                                     |                      |                       |
| Balance as per audited financial statements                                                                                                                                                                                             |                      | 203,403,427           |
| Regional Service Levy - Remuneration (see Note 20)                                                                                                                                                                                      |                      | 8,183,333             |
| <b>Restated Balance</b>                                                                                                                                                                                                                 |                      | <b>211,586,760</b>    |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                                                                                                                                                 | 2007 | Restated                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------------------|
|                                                                                                                                                                                                                                                                                                 | R    | 2006                      |
|                                                                                                                                                                                                                                                                                                 |      | R                         |
| <b>35.5 Licences and Permits</b>                                                                                                                                                                                                                                                                |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | -                         |
| Transfer from Other Income (see Note 22)                                                                                                                                                                                                                                                        |      | <u>57,508,895</u>         |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>57,508,895</b></u>  |
| Licences and Permits disclosed separately in line with the National Treasury requirements.                                                                                                                                                                                                      |      |                           |
| <b>35.6 Government Grants and Subsidies</b>                                                                                                                                                                                                                                                     |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | 365,457,494               |
| Capital Grants transferred to Statement of Financial Performance                                                                                                                                                                                                                                |      | <u>156,132,005</u>        |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>521,589,499</b></u> |
| Government grants and subsidies were restated in the 2005/06 financial year to account for the capital spending from grants that were not previously reflected in the financial statements.                                                                                                     |      |                           |
| <b>35.7 Other Income</b>                                                                                                                                                                                                                                                                        |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | 195,609,999               |
| Transfer to Licences and Permits                                                                                                                                                                                                                                                                |      | (57,508,895)              |
| Restatement - Insurance Claim (see Note 22)                                                                                                                                                                                                                                                     |      | 251,639                   |
| Restatement - Logistics Park Rental and Levy (see Note 22)                                                                                                                                                                                                                                      |      | <u>1,329,884</u>          |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>139,682,627</b></u> |
| Licences and Permits disclosed separately in line with the National Treasury requirements.                                                                                                                                                                                                      |      |                           |
| The Logistics Park operating revenue was restated due to the extent of revenue relating to the 2005/06 financial year only being reported on in the 2006/07 financial year.                                                                                                                     |      |                           |
| <b>35.8 Contributions: Other</b>                                                                                                                                                                                                                                                                |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | 3,509,576                 |
| Appropriations transferred to Statement of Financial Performance                                                                                                                                                                                                                                |      | <u>253,946,124</u>        |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>257,455,700</b></u> |
| Contributions: Other was restated in the 2005/06 financial year to adjust for appropriations that were incorrectly included in the Statement of Changes in Net Assets.                                                                                                                          |      |                           |
| <b>35.9 Grants and Subsidies Paid</b>                                                                                                                                                                                                                                                           |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | 7,799,869                 |
| Transfer from General Expenses                                                                                                                                                                                                                                                                  |      | <u>33,308,444</u>         |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>41,108,313</b></u>  |
| The 2005/06 balance was restated in the amounts of R17 739 864 and R15 568 580 in respect of Grants to Entities and Grants to Other Organisations respectively. These amounts were transferred from General Expenses. The restatement is in accordance with the National Treasury requirements. |      |                           |
| <b>35.10 General Expenses</b>                                                                                                                                                                                                                                                                   |      |                           |
| Balance as per audited financial statements                                                                                                                                                                                                                                                     |      | 567,032,678               |
| Transfer to Grants and Subsidies Paid                                                                                                                                                                                                                                                           |      | (33,308,444)              |
| Restatement Logistics Park Operational Costs                                                                                                                                                                                                                                                    |      | 1,298,984                 |
| Refund of Loan                                                                                                                                                                                                                                                                                  |      | 76,303                    |
| Opening stock amended                                                                                                                                                                                                                                                                           |      | 16,484,869                |
| Bank charges understated                                                                                                                                                                                                                                                                        |      | <u>14,797</u>             |
| <b>Restated Balance</b>                                                                                                                                                                                                                                                                         |      | <u><b>551,599,188</b></u> |
| The Logistics Park operating costs were restated due to the extent of expenditure relating to the 2005/06 financial year only being reported on in the 2006/07 financial year.                                                                                                                  |      |                           |
| Opening Stock amended - Refer note 12                                                                                                                                                                                                                                                           |      |                           |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                                                                                             | 2007<br>R | Restated<br>2006<br>R       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------|
| <b>35.11 Contributions to/(from) Provisions</b>                                                                                                                             |           |                             |
| Balance as per audited financial statements                                                                                                                                 |           | 381,173,705                 |
| Appropriations transferred to Income Statement                                                                                                                              |           | <u>87,586,125</u>           |
| <b>Restated Balance</b>                                                                                                                                                     |           | <u><u>468,759,830</u></u>   |
| Contributions: to/(from) were restated in the 2005/06 financial year to adjust for appropriations that were incorrectly included in the Statement of Changes in Net Assets. |           |                             |
| <b><u>Statement of Financial Position</u></b>                                                                                                                               |           |                             |
| <b>35.12 Housing Development Fund</b>                                                                                                                                       |           |                             |
| Restated Opening Balance (See Note 36.3)                                                                                                                                    |           | 71,216,872                  |
| Transfer from Accumulated Surplus (See Note 35.17)                                                                                                                          |           | <u>11,821,135</u>           |
| <b>Restated Closing Balance</b>                                                                                                                                             |           | <u><u>83,038,007</u></u>    |
| Due to re-classification of certain items within the Housing Development Fund, the movement in previous year changed and was restated.                                      |           |                             |
| <b>35.13 Capital Replacement Reserve</b>                                                                                                                                    |           |                             |
| Restated Opening Balance (See Note 36.4)                                                                                                                                    |           | 229,380,354                 |
| Transfer from Accumulated Surplus (See Note 35.17)                                                                                                                          |           | 239,933,229                 |
| PPE Purchased (See Note 35.17)                                                                                                                                              |           | <u>(232,996,045)</u>        |
| <b>Restated Closing Balance</b>                                                                                                                                             |           | <u><u>236,317,538</u></u>   |
| Due to re-classification of certain items within the Capital Replacement Reserve, the movement in previous year changed and was restated.                                   |           |                             |
| <b>35.14 Capitalisation Reserve</b>                                                                                                                                         |           |                             |
| Restated Opening Balance (See Note 36.7)                                                                                                                                    |           | 1,427,731,721               |
| Offsetting Depreciation (See Note 35.17)                                                                                                                                    |           | (110,074,296)               |
| Additional Depreciation Reversal (See Note 35.17)                                                                                                                           |           | 12,610                      |
| Asset Disposal (See note 35.17)                                                                                                                                             |           | <u>(41,295,064)</u>         |
| <b>Restated Closing Balance</b>                                                                                                                                             |           | <u><u>1,276,374,971</u></u> |
| Due to re-classification of certain items within the Capitalisation Reserve, the movement in previous year changed and was restated.                                        |           |                             |
| <b>35.15 Government Grant Reserve</b>                                                                                                                                       |           |                             |
| Restated Opening Balance (See Note 36.5)                                                                                                                                    |           | 348,876,385                 |
| Capital Grants used to purchase PPE (See Note 35.17)                                                                                                                        |           | 343,074,620                 |
| Offsetting Depreciation (See Note 35.17)                                                                                                                                    |           | (6,580,152)                 |
| Additional Depreciation Reversal (See Note 35.17)                                                                                                                           |           | 1,097                       |
| <b>Restated Closing Balance</b>                                                                                                                                             |           | <u><u>685,371,949</u></u>   |
| Due to re-classification of certain items within the Government Grant Reserve, the movement in previous year changed and was restated.                                      |           |                             |
| <b>35.16 Donations and Public Contributions Reserve</b>                                                                                                                     |           |                             |
| Restated Opening Balance (See Note 36.2)                                                                                                                                    |           | 91,804,843                  |
| Transfer from Accumulated Surplus (See Note 35.17)                                                                                                                          |           | <u>27,729,087</u>           |
| <b>Restated Closing Balance</b>                                                                                                                                             |           | <u><u>119,533,930</u></u>   |
| Due to re-classification of certain items within the Donations and Public Contributions Reserve, the movement in previous year changed and was restated.                    |           |                             |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                                | 2007 | Restated                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------------------------|
|                                                                                                                                                                                | R    | 2006                        |
|                                                                                                                                                                                |      | R                           |
| <b>35.17 Accumulated Surplus</b>                                                                                                                                               |      |                             |
| Restated Opening Balance (See Note 36.6)                                                                                                                                       |      | 1,099,798,465               |
| Surplus for the year                                                                                                                                                           |      | 434,687,569                 |
| Transfer to CRR (See Note 35.13)                                                                                                                                               |      | (239,933,229)               |
| PPE Purchased from CRR (See Note 35.13)                                                                                                                                        |      | 232,996,045                 |
| Capital Grants used to purchase PPE (See Note 35.15)                                                                                                                           |      | (343,074,620)               |
| Donated/Contributed PPE (See Note 35.16)                                                                                                                                       |      | (27,729,087)                |
| Contribution to Insurance Reserve                                                                                                                                              |      | (27,154,220)                |
| Insurance Claims processed                                                                                                                                                     |      | 11,401,264                  |
| Transfer to Housing Development Fund (See Note 35.12)                                                                                                                          |      | (11,821,135)                |
| Offsetting Depreciation (See Notes 35.14 and 35.15)                                                                                                                            |      | 116,654,449                 |
| Additional Depreciation Reversal (See Notes 35.14 and 35.15)                                                                                                                   |      | (13,707)                    |
| Asset Disposal (See Note 35.14)                                                                                                                                                |      | <u>41,295,064</u>           |
| <b>Restated Closing Balance</b>                                                                                                                                                |      | <b><u>1,287,106,857</u></b> |
| The restated movement within the Reserves resulted in the Accumulated Surplus movement to be restated as well.                                                                 |      |                             |
| <b>35.18 Long-term liabilities</b>                                                                                                                                             |      |                             |
| Balance as per audited financial statements                                                                                                                                    |      | 712,151,875                 |
| Transfer to Non-current Provisions (See Note 2)                                                                                                                                |      | <u>(298,895,129)</u>        |
| <b>Restated Balance</b>                                                                                                                                                        |      | <b><u>413,256,746</u></b>   |
| <b>35.19 Non-current Provisions</b>                                                                                                                                            |      |                             |
| Balance as per audited financial statements                                                                                                                                    |      | 18,959,716                  |
| Transfer from Long-term Liabilities (See Note 3)                                                                                                                               |      | <u>298,895,129</u>          |
| <b>Restated Balance</b>                                                                                                                                                        |      | <b><u>317,854,845</u></b>   |
| <b>35.20 Creditors</b>                                                                                                                                                         |      |                             |
| Balance as per audited financial statements                                                                                                                                    |      | 543,181,065                 |
| Restatement Logistics Park Operational Costs                                                                                                                                   |      | 1,298,984                   |
| Refund of Loan                                                                                                                                                                 |      | 76,303                      |
| Bank charges understated                                                                                                                                                       |      | <u>14,797</u>               |
| <b>Restated Balance</b>                                                                                                                                                        |      | <b><u>544,571,149</u></b>   |
| The Logistics Park operating costs were restated due to the extent of expenditure relating to the 2005/06 financial year only being reported on in the 2006/07 financial year. |      |                             |
| <b>35.21 Unspent Conditional Grants and Receipts</b>                                                                                                                           |      |                             |
| Restated Opening Balance (See Note 36.1)                                                                                                                                       |      | 379,728,559                 |
| Current year receipts                                                                                                                                                          |      | 438,547,858                 |
| Transferred to Revenue                                                                                                                                                         |      | (188,725,174)               |
| Funding of Capital Projects                                                                                                                                                    |      | <u>(156,132,005)</u>        |
| <b>Restated Closing Balance</b>                                                                                                                                                |      | <b><u>473,419,238</u></b>   |
| Due to re-classification of certain items within Unspent Conditional Grants and Receipts, the movement in previous year changed and was restated.                              |      |                             |
| <b>35.22 Property, plant and equipment</b>                                                                                                                                     |      |                             |
| Balance as per audited financial statements                                                                                                                                    |      | 3,162,901,536               |
| Transferred from Investment Property (See Note 9)                                                                                                                              |      | 90,305,290                  |
| Transferred to Intangible Assets (See Note 8)                                                                                                                                  |      | <u>(87,589,576)</u>         |
| <b>Restated Balance</b>                                                                                                                                                        |      | <b><u>3,165,617,250</u></b> |
| <b>35.23 Intangible Assets</b>                                                                                                                                                 |      |                             |
| Balance as per audited financial statements                                                                                                                                    |      | -                           |
| Transferred from Property, plant and equipment (See Note 7)                                                                                                                    |      | <u>87,589,576</u>           |
| <b>Restated Balance</b>                                                                                                                                                        |      | <b><u>87,589,576</u></b>    |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                           | 2007<br>R | Restated<br>2006<br>R    |
|-----------------------------------------------------------|-----------|--------------------------|
| <b>35.24 Investment Property</b>                          |           |                          |
| Balance as per audited financial statements               |           | 90,305,290               |
| Transferred to Property, plant and equipment (See Note 7) |           | <u>(90,305,290)</u>      |
| <b>Restated Balance</b>                                   |           | <u><u>-</u></u>          |
| <b>35.25 Inventory</b>                                    |           |                          |
| Balance as per audited financial statements               |           | 82,518,847               |
| Opening Stock amended                                     |           | <u>(16,484,869)</u>      |
| <b>Restated Balance</b>                                   |           | <u><u>66,033,978</u></u> |

The Inventory for Raw Materials - Water has been restated in the amount of R16 484 869 (2005/2006) in accordance with the exemption in Gazette No. 30013.

|                                               |  |                           |
|-----------------------------------------------|--|---------------------------|
| <b>35.26 Consumer Debtors</b>                 |  |                           |
| Balance as per audited financial statements   |  | 538,344,298               |
| Sale of Water understated (See Note 13)       |  | 20,139,285                |
| Sale of Electricity understated (See Note 13) |  | <u>23,644,594</u>         |
| <b>Restated Balance</b>                       |  | <u><u>582,128,177</u></u> |

Service charges in respect of Water in the amount of R20 139 285 has been restated in respect of the 2005/06 financial year.

Service charges in respect of Electricity in the amount of R23 644 595 has been restated in respect of the 2005/06 financial year.

|                                                            |  |                          |
|------------------------------------------------------------|--|--------------------------|
| <b>35.27 Other Debtors</b>                                 |  |                          |
| Balance as per audited financial statements                |  | 76,440,217               |
| Regional Service Levy - Turnover (See Note 20)             |  | 3,258,519                |
| Regional Service Levy - Remuneration (See Note 20)         |  | 8,183,333                |
| Restatement - Insurance Claim (See Note 22)                |  | 251,639                  |
| Restatement - Logistics Park Rental and Levy (See Note 22) |  | <u>1,329,884</u>         |
| <b>Restated Balance</b>                                    |  | <u><u>89,463,592</u></u> |

The Logistics Park operating revenue was restated due to the extent of revenue relating to the 2005/06 financial year only being reported on in the 2006/07 financial year.

**36 CORRECTION OF ERROR**

**36.1 Unspent Conditional Grants and Receipts**

During the year ended 30 June 2006, the opening balance in respect of Unspent Conditional Grants and Receipts was understated in the amount of R359 653 963. This balance was incorrectly included in the Government Grant Reserve in the amount of R358 902 625 and in the Capitalisation Reserve in the amount of R751 338 due to a classification error between the reserves and Unspent Conditional Grants and Receipts.

|                                                          |                           |
|----------------------------------------------------------|---------------------------|
| Opening Balance as per audited financial statements      | 20,074,596                |
| Transfer from Government Grant Reserve                   | 358,902,625               |
| Transfer from Donations and Public Contributions Reserve | <u>751,338</u>            |
| <b>Restated Opening Balance</b>                          | <u><u>379,728,559</u></u> |

**36.2 Donations and Public Contributions Reserve**

During the year ended 30 June 2006, the opening balance in respect of Donations and Public Contributions Reserve was understated in the amount of R64 390 541. This balance was incorrectly included in the Capitalisation Reserve due to a classification error between these two reserves.

|                                                     |                          |
|-----------------------------------------------------|--------------------------|
| Opening Balance as per audited financial statements | 27,414,302               |
| Transfer to Unspent Conditional Grants and Receipts | (751,338)                |
| Transfer from Capitalisation Reserve                | <u>65,141,878</u>        |
| <b>Restated Opening Balance</b>                     | <u><u>91,804,844</u></u> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2007<br>R | Restated<br>2006<br>R       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------|
| <b>36.3 Housing Development Fund</b>                                                                                                                                                                                                                                                                                                                                                                                                                                 |           |                             |
| During the year ended 30 June 2006, the opening balance in respect of Housing Development Fund was overstated in the amount of R9 112 576. This balance was incorrectly included in the Capitalisation Reserve in the amount of R8 221 650 and an amount of R890 925 relating to the Capital Replacement Reserve was incorrectly included in the Housing Development Fund due to a classification error between these two reserves and the Housing Development Fund. |           |                             |
| Opening Balance as per audited financial statements                                                                                                                                                                                                                                                                                                                                                                                                                  |           | 80,329,448                  |
| Transfer to Capital Replacement Reserve                                                                                                                                                                                                                                                                                                                                                                                                                              |           | (890,925)                   |
| Transfer from Capitalisation Reserve                                                                                                                                                                                                                                                                                                                                                                                                                                 |           | <u>(8,221,650)</u>          |
| <b>Restated Opening Balance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <b><u>71,216,872</u></b>    |
| <b>36.4 Capital Replacement Reserve</b>                                                                                                                                                                                                                                                                                                                                                                                                                              |           |                             |
| During the year ended 30 June 2006, the opening balance in respect of the Capital Replacement Reserve was understated in the amount of R890 925. This balance was incorrectly included in the Housing Development Fund due to a classification error between these two reserves.                                                                                                                                                                                     |           |                             |
| Opening Balance as per audited financial statements                                                                                                                                                                                                                                                                                                                                                                                                                  |           | 228,489,429                 |
| Transfer from Housing Development Fund                                                                                                                                                                                                                                                                                                                                                                                                                               |           | <u>890,925</u>              |
| <b>Restated Opening Balance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <b><u>229,380,354</u></b>   |
| <b>36.5 Government Grant Reserve</b>                                                                                                                                                                                                                                                                                                                                                                                                                                 |           |                             |
| During the year ended 30 June 2006, the Unspent Conditional Grants and Receipts balance of R358 902 625 was incorrectly included in the Government Grant Reserve. The Government Grant Reserve opening balance in the amount of R328 801 789 was incorrectly included in the Capitalisation Reserve due to a classification error between these two reserves.                                                                                                        |           |                             |
| Opening Balance as per audited financial statements                                                                                                                                                                                                                                                                                                                                                                                                                  |           | 378,977,220                 |
| Transfer to Unspent Conditional Grants and Receipts                                                                                                                                                                                                                                                                                                                                                                                                                  |           | (358,902,625)               |
| Transfer from Capitalisation Reserve                                                                                                                                                                                                                                                                                                                                                                                                                                 |           | <u>328,801,789</u>          |
| <b>Restated Opening Balance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <b><u>348,876,385</u></b>   |
| <b>36.6 Accumulated Surplus</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           |                             |
| During the year ended 30 June 2006, the opening balance of the Accumulated Surplus was incorrectly understated in the amount of R1 010 778 381. This balance was incorrectly included in the Capitalisation Reserve due to a classification error between these two reserves.                                                                                                                                                                                        |           |                             |
| Opening Balance as per audited financial statements                                                                                                                                                                                                                                                                                                                                                                                                                  |           | 72,298,053                  |
| Change in Accounting policy                                                                                                                                                                                                                                                                                                                                                                                                                                          |           | 16,722,031                  |
| Transfer from Capitalisation Reserve                                                                                                                                                                                                                                                                                                                                                                                                                                 |           | <u>1,010,778,381</u>        |
| <b>Restated Opening Balance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <b><u>1,099,798,465</u></b> |
| <b>36.7 Capitalisation Reserve</b>                                                                                                                                                                                                                                                                                                                                                                                                                                   |           |                             |
| During the year ended 30 June 2006, the opening balance of the Capitalisation Reserve was incorrectly overstated by R1 396 500 398 due to a classification error between the reserves. This Balance has accordingly been transferred to the respective Reserves and the Accumulated Surplus.                                                                                                                                                                         |           |                             |
| Opening Balance as per audited financial statements                                                                                                                                                                                                                                                                                                                                                                                                                  |           | 2,824,232,119               |
| Transfer to Government Grant Reserve                                                                                                                                                                                                                                                                                                                                                                                                                                 |           | (328,801,789)               |
| Transfer to Donations and Public Contributions Reserve                                                                                                                                                                                                                                                                                                                                                                                                               |           | (65,141,878)                |
| Transfer to Housing Development Fund                                                                                                                                                                                                                                                                                                                                                                                                                                 |           | 8,221,650                   |
| Transfer to Accumulated Surplus                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <u>(1,010,778,381)</u>      |
| <b>Restated Opening Balance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      |           | <b><u>1,427,731,721</u></b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

|                                                                              | 2007<br>R         | Restated<br>2006<br>R |
|------------------------------------------------------------------------------|-------------------|-----------------------|
| <b>37 OPERATING LEASE COMMITMENTS</b>                                        |                   |                       |
| <b>NMBMM as Lessee</b>                                                       |                   |                       |
| <b>Future minimum lease payments under non-cancellable operating leases:</b> |                   |                       |
| <b>Buildings</b>                                                             | <b>9,148,994</b>  | <b>13,830,694</b>     |
| Payable within one year                                                      | 5,116,150         | 4,880,113             |
| Payable within two to five years                                             | 4,009,563         | 8,916,929             |
| Payable after five years                                                     | 23,281            | 33,651                |
| <b>Photocopier, fax machines and other equipment</b>                         | <b>1,074,134</b>  | <b>1,679,299</b>      |
| Payable within one year                                                      | 524,199           | 605,164               |
| Payable within two to five years                                             | 549,935           | 1,071,128             |
| Payable after five years                                                     | 0                 | 3,006                 |
| <b>Motor vehicles</b>                                                        | <b>288,545</b>    | <b>374,410</b>        |
| Payable within one year                                                      | 124,803           | 85,865                |
| Payable within two to five years                                             | 163,741           | 288,545               |
| Payable after five years                                                     | 0                 | 0                     |
|                                                                              | <b>10,511,673</b> | <b>15,884,402</b>     |

IAS 17.35 (c) and (d) are not applicable, as no contingent rent lease contracts were entered into.

**NMBMM as Lessor**

At statement of financial performance date, NMBMM has contracted with tenants for the following future minimum lease payments:

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| <b>Buildings</b>                 | <b>1,958,666</b> | <b>2,437,930</b> |
| Payable within one year          | 533,066          | 479,263          |
| Payable within two to five years | 1,041,452        | 1,275,839        |
| Payable after five years         | 384,148          | 682,828          |
|                                  | <b>1,958,666</b> | <b>2,437,930</b> |

IAS 17.56 (b) and (c) are not applicable as no contingent rent lease contracts were entered into.

The operating lease payments/ receipts are recognised on the basis of the cash flows in the lease agreement in accordance with the exemption in the Gazette No. 30013.

**38 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

|                                      |                  |          |
|--------------------------------------|------------------|----------|
| Opening Balance                      | 0                | 0        |
| Irregular Expenditure current year   | 3,655,845        | 0        |
| Approved by Council                  | 0                | 0        |
| Transfer to receivables for recovery | 0                | 0        |
| <b>Closing Balance</b>               | <b>3,655,845</b> | <b>0</b> |

**Incident/Disciplinary steps/Criminal Proceedings**

**38.1 Relocation of families to sites**

Irregular payment for the relocation of families to sites. No actions taken, as investigations are still in process.

|           |   |
|-----------|---|
| 1,366,230 | 0 |
|-----------|---|

**38.2 Supply Chain Management Policy not followed**

Supply Chain Management Policy not followed in procurement of services. This is subject to investigation.

|        |   |
|--------|---|
| 39,615 | 0 |
|--------|---|

**38.3 Ekard sales**

Ekard sales totalling R500 000 have not been disclosed in the Operating Budget for 2006/2007, as the income was either collected and not banked, or was not received at all. The case was reported to the SA Police Service for further investigation. The services of the employee in question were terminated.

|         |   |
|---------|---|
| 500,000 | 0 |
|---------|---|

**38.4 Unauthorised requisitioning of stock**

Printer cartridges (held as stock items in municipal stores) to the value of approximately R1.75 million have been withdrawn on the basis of fraudulently completed requisitions. This amount was charged to the Operating Budget, resulting in overexpenditure on the vote. The official was summarily suspended awaiting a disciplinary hearing. The case was reported to the SA Police Service for further investigation.

|           |   |
|-----------|---|
| 1,750,000 | 0 |
|-----------|---|

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

| <b>39. CONTINGENT LIABILITIES</b>                                                                  | <b>2007<br/>R</b> | <b>Restated<br/>2006<br/>R</b> |
|----------------------------------------------------------------------------------------------------|-------------------|--------------------------------|
| Guarantees by Council in respect of general and commercial bank housing loans to staff amounted to | 572,088           | 572,088                        |
| (a) Linton Projects                                                                                | 385,808           | 385,808                        |
| (b) Swartkops Seesout                                                                              | 7,157,829         | 6,540,360                      |
| (c) Elsig Electrical Engineering                                                                   | 761,516           | 761,516                        |
| (d) B Jacobs & (e) S L Hartzenberg claims consolidated in 2006/07 Financial year.                  | 574,710           | 202,355                        |
| (e) S L Hartzenberg                                                                                | 0                 | 252,355                        |
| (f) Post-retirement Benefits                                                                       | 0                 | 326,835,871                    |
| (g) Amadisi Construction                                                                           | 10,342,465        | 20,342,465                     |
| (h) J M Hendricks                                                                                  | 3,541,600         | 3,541,600                      |
| (i) Scribante Plant Hire (EC)(PTY) Limited t/a Scribante Concrete                                  | 500,000           | 493,510                        |
| (j) Commando Security                                                                              | 0                 | 1,000,000                      |
| (k) D Tobias                                                                                       | 775,755           | 220,000                        |
| (l) J E Otto                                                                                       | 0                 | 354,000                        |
| (m) S E Van Zyl                                                                                    | 651,368           | 651,000                        |
| (n) H E Davids                                                                                     | 241,680           | 241,000                        |
| (o) Masakeni Civils                                                                                | 377,648           | 377,648                        |
| (p) FJP van der Merwe                                                                              | 334,548           | 446,064                        |
| (q) E Haasbroek                                                                                    | 652,000           | 652,000                        |
| (r) D Pook                                                                                         | 397,000           | 0                              |
| (s) K R Hataha                                                                                     | 1,210,475         | 0                              |
| (t) M G Mantla                                                                                     | 1,130,000         | 0                              |
| (u) E Hills                                                                                        | 379,850           | 0                              |
| (v) Golden Coast Trading CC t/a Ibhayi Spar                                                        | 235,895           | 0                              |
|                                                                                                    | <b>30,222,235</b> | <b>363,869,640</b>             |

- (a) The claim arises out of a dispute surrounding the sale of Council owned land.
- (b) The claim arises out of an alleged sewer spillage into the salt pans
- (c) The claim arises out of a dispute between an electrical contractor and the Municipality over the alleged amendments to a contract.
- (d) Both (d) and (e) refer to the same incident. The claim arises as a result of
- (e) both the father and the mother suing the Municipality in their separate capacities as their minor child allegedly drowned in water on a municipal building site. During the 2006/07 financial year, the parents instituted a consolidated claim replacing their previous claims.



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007****39. CONTINGENT LIABILITIES - (continued)**

- (f) During the 2006/07 financial year the Post-retirements Benefits provision was adjusted in line with the assessed liability as at 30 June 2007. Therefore no contingent liability existed at year end.
- (g) The claim arises out of a dispute between a housing contractor and the Municipality over the termination of a housing contract due to the continuous failure of the claimant to comply with his obligations under the contract to timeously completing the work.
- (h) The claim arises as a result of the mother suing the Municipality in her capacity as natural guardian of her minor daughter who sustained injuries whilst in a public recreational park.
- (i) The claim arises out of a dispute surrounding payment of monies due and payable by the Municipality to Vukuzenzele (Pty) Limited, Maqadi Yona Construction and Equibuild Construction for alleged services rendered.
- (j) The claim arises out of a dispute surrounding alleged payment for services rendered.
- (k) The claim arises out of a shooting incident between a Traffic Officer and the claimant after the Traffic Officer allegedly lost control and overturned a municipal vehicle. The claimant has amended the quantum of his claim during the course of pleadings
- (l) The claim arises out of injuries sustained in an alleged fall into an open manhole. This case was resolved in the 2006/07 financial year.
- (m) The claim arises out of damage to the claimants vehicle allegedly caused by swerving as a Municipal Traffic officer overtook an overloaded truck.
- (n) The claim arises out of the Municipality allegedly failing to inform Sanlam about the possibility of medical boarding within six months from the last date on which the claimant actually worked, resulting in the alleged repudiation of his claim against Sanlam.
- (o) The claim arises out of a dispute surrounding the alleged determination by the engineer pursuant to Clause 61 of the General Conditions of Contract, that the contractor's claim for extensions of time and re-establishment costs not be approved.
- (p) The claim arises out of the Municipality allegedly failing to inform Sanlam timeously of the claimant's prospective or potential medical boarding, resulting in the alleged repudiation of his claim against Sanlam for permanent and total disability benefits.
- (q) The claim arises out of damage to the claimant's property allegedly caused by underground water from a burst municipal water pipe.
- (r) The claim arises out of injuries sustained in an alleged fall on a pavement.
- (s) The claim arises out of injuries sustained in an alleged fall into an open manhole.
- (t) The claim arises out of injuries sustained by the claimant's minor son arising from the fact that he allegedly came into contact with an exposed live electrical conductor.
- (u) The claim arises out of injuries sustained in an alleged fall into an open manhole.
- (v) The claim arises due to the forced closure of the business for a period of time that resulted from a burst water main.

**APPENDIX A**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2007**

| <b>EXTERNAL LOANS</b>                               |                 |      |                |                           |                            |                          |                           |  |  |
|-----------------------------------------------------|-----------------|------|----------------|---------------------------|----------------------------|--------------------------|---------------------------|--|--|
| Local Registered Stock                              |                 |      |                |                           |                            |                          |                           |  |  |
| LOAN NO.                                            | INTEREST RATE % | YEAR | DATE REPAYABLE | BALANCE AT 30 June 2006 R | RECEIVED DURING THE YEAR R | REPAID DURING THE YEAR R | BALANCE AT 30 June 2007 R |  |  |
| 1                                                   | 17.40           | 1988 | 2008/06/30     | 2,000,000                 | 0                          | 0                        | 2,000,000                 |  |  |
| 1                                                   | 16.90           | 2000 | 2011/06/30     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
| 279                                                 | 16.40           | 2000 | 2009/09/26     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
| 278                                                 | 17.55           | 2000 | 2009/03/23     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
|                                                     |                 |      |                | 26,000,000                | 0                          | 0                        | 26,000,000                |  |  |
| Development Bank of Southern Africa                 |                 |      |                | 226,382,719               | 0                          | 19,785,237               | 206,597,482               |  |  |
| Amalgamated Banks of South Africa                   |                 |      |                | 2,540,322                 | 0                          | 2,540,322                | 0                         |  |  |
| Amalgamated Banks of South Africa - Long-term Lease |                 |      |                | 30,000,000                | 0                          | 30,000,000               | 0                         |  |  |
| State Housing Loans to Public Organisations         |                 |      |                | 13,908,901                | 0                          | 13,908,901               | 0                         |  |  |
| Cape Joint Pension Fund                             |                 |      |                | 70,000                    | 0                          | 70,000                   | 0                         |  |  |
|                                                     |                 |      |                | <b>298,901,942</b>        | <b>0</b>                   | <b>66,304,460</b>        | <b>232,597,482</b>        |  |  |

| NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007 |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
|------------------------------------------------------------------------------------------------------------|-----------------|-------------------------|------------|----------------------------|--------------|-----------------|-----------------|-------------------------|--------------|-------------------------|-----------------|----------------|
| ACCUMULATED DEPRECIATION                                                                                   |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
|                                                                                                            | Opening Balance | Transfers / Adjustments | Additions  | Capital Under Construction | Disposals    | Closing Balance | Opening Balance | Transfers / Adjustments | Additions    | Disposals / Adjustments | Closing Balance | Carrying Value |
| <b>Land and Buildings</b>                                                                                  |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Buildings                                                                                                  | 235,130,415     | (13,715,781)            | 31,597     | 30,403,337                 | (320,832)    | 251,528,736     | 38,882,741      | (2,950,840)             | 3,943,856    | (128,333)               | 39,747,424      | 211,781,312    |
| Land                                                                                                       | 38,918,728      | 38,918,728              | 50,000     | 50,000                     |              | 38,968,728      | 11,156,430      | (11,156,430)            |              |                         | 38,968,728      | 38,968,728     |
| <b>Infrastructure Assets</b>                                                                               |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Networks                                                                                                   | 1,245,778,197   | 7,145,652               | 12,941,517 | 220,616,735                | (504,103)    | 1,465,877,999   | 554,132,920     | 5,277,630               | 91,506,856   | (319,265)               | 650,596,141     | 835,079,857    |
| Beach Developments                                                                                         | 23,022,666      | 43,589,654              |            | 11,186,365                 | (6,286,603)  | 71,512,112      | 9,997,123       | 16,388,981              | 1,566,020    | (2,811,658)             | 25,140,464      | 46,371,658     |
| Electricity Retention and Supply                                                                           | 1,077,530,052   | (29,807,858)            | 14,243,189 | 153,329,612                |              | 1,199,494,975   | 267,984,033     | (2,995,167)             | 55,980,987   |                         | 318,969,903     | 837,506,072    |
| Sewerage Mains and Purification Works                                                                      | 574,308,816     | 140,353,075             | 4,330,905  | 106,343,221                |              | 826,335,017     | 142,794,897     | 38,198,778              | 33,731,895   |                         | 216,625,480     | 812,710,557    |
| Waste Disposal Facilities                                                                                  | 117,457,833     | (68,637,377)            | 4,624,722  | 5,975,322                  |              | 38,942,443      | (34,948,562)    | 6,333,618               |              |                         | 10,327,489      | 51,093,001     |
| Water Supply and Retention                                                                                 | 409,110,543     | (48,274,685)            | 2,484,395  | 43,956,631                 |              | 407,275,974     | 154,268,117     | (20,221,195)            | 21,289,183   |                         | 155,336,115     | 251,949,759    |
| Dams and Treatment Works                                                                                   | 205,995,842     | (74,880,211)            | 29,811,339 | 29,811,339                 |              | 159,826,970     | 34,171,098      | 657,395                 | 3,015,112    |                         | 37,843,563      | 121,965,407    |
| <b>Community Assets</b>                                                                                    |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Libraries                                                                                                  | 14,675,000      | 910,005                 | 1,585,159  | 1,980,607                  |              | 19,164,771      | 4,327,320       | (25,573)                | 776,993      |                         | 5,078,740       | 14,086,031     |
| Fire Stations                                                                                              | 24,895,538      | 5,028,550               | 680        | 363,479                    | (32,324)     | 30,356,923      | 14,000,974      | (924,506)               | (19,394)     |                         | 12,877,080      | 17,479,943     |
| Cemeteries                                                                                                 | 14,279,601      | 1,363,500               |            | 6,510,042                  |              | 22,153,143      | 3,859,057       | (1,360,200)             | 441,726      |                         | 2,940,583       | 19,212,559     |
| Clinics                                                                                                    | 18,131,158      | 7,907,093               | 958        | 1,278,132                  | (41,339)     | 27,276,942      | 4,046,447       | (231,155)               | 837,740      | (16,539)                | 4,636,496       | 22,639,546     |
| Community Centres                                                                                          | 75,231,589      | 4,449,830               | 74,054     | 3,986,277                  |              | 84,641,750      | 19,586,634      | 465,566                 | 2,634,229    |                         | 22,786,428      | 61,855,322     |
| Public Conveniences                                                                                        | 57,174,631      | (48,746,602)            | 5,630      | 1,013,396                  | (439,002)    | 6,994,652       | 34,428,760      | (31,697,409)            | 264,361      | (192,553)               | 2,893,159       | 4,191,498      |
| Swimming Pools                                                                                             | 15,182,105      | (397,143)               | 4,688,428  | 168,757,228                | (107,942)    | 15,680,416      | 7,310,902       | (174,086)               | 488,978      | (69,882)                | 7,657,102       | 8,133,314      |
| Recreational Facilities                                                                                    | 288,810,018     | (24,481,741)            |            |                            | (12,417,138) | 403,356,795     | 71,915,472      | (21,584,201)            | 10,582,415   | (5,124,818)             | 55,893,888      | 347,517,927    |
| Selling and Letting Schemes                                                                                | 75,458,321      | 33,440,441              |            |                            | (9,189,361)  | 100,729,401     | 25,188,098      | 20,497,257              | (15,899,442) | (2,568,108)             | 27,205,805      | 73,523,596     |
| <b>Heritage Assets</b>                                                                                     |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Historical Buildings                                                                                       | 34,188,881      | (33,377,634)            |            | 408,512                    |              | 1,214,759       | 50,653          | 300,887                 | (351,540)    |                         | 1,214,759       | 1,214,759      |
| Monuments and Statues                                                                                      | 2,675,409       | 2,675,409               |            |                            |              | 2,675,409       | 35,940          | (35,940)                |              |                         | 2,675,409       | 2,675,409      |
| Heritage Sites                                                                                             | 1,120,882       | 1,120,882               |            | 258,288                    |              | 1,379,180       | 3,000           | (3,000)                 |              |                         | 1,379,180       | 1,379,180      |
| Museums                                                                                                    | 45,730,959      | 45,730,959              |            | 3,263,902                  |              | 48,994,861      | 11,713          | (11,713)                |              |                         | 48,994,861      | 48,994,861     |
| Art Works                                                                                                  | 5,713,969       | (14,178)                |            |                            |              | 5,699,821       |                 |                         |              |                         | 5,699,821       | 5,699,821      |
| <b>Other Assets</b>                                                                                        |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Bins and Containers                                                                                        | 39,802,880      | 16,135,438              |            | 3,925,772                  |              | 59,964,090      | 50,663          | 351,540                 | (402,193)    |                         | 59,964,090      | 59,964,090     |
| Emergency and Medical Equipment                                                                            | 185,916         | 185,916                 |            |                            |              | 185,916         | 157,233         | 14,182                  | 14,182       |                         | 171,415         | 14,501         |
| Vehicles and Plant                                                                                         | 2,112,809       | 2,112,809               | 2,658,223  |                            | (15,124)     | 4,957,908       | 1,477,498       | 266,329                 | (13,120)     |                         | 1,790,703       | 3,227,205      |
| Office Furniture and Fittings                                                                              | 137,560,333     | 17,090,381              | 30,525,016 |                            | (161,114)    | 184,924,626     | 56,685,670      | 352,332                 | 19,099,808   | (60,557)                | 75,057,263      | 109,867,373    |
| Landfill Sites                                                                                             | 94,097,539      | 47,938,383              | 6,041,511  |                            | (464,682)    | 147,612,751     | 18,769,085      | 9,546,546               | 3,515,790    | (464,682)               | 32,310,739      | 115,302,072    |
| Security Systems                                                                                           | 71,545,345      | 71,545,345              |            |                            |              | 71,545,345      | 2,581,797       | 2,014,114               |              |                         | 4,696,911       | 71,545,345     |
| Access Control                                                                                             | 9,245,069       | 9,245,069               |            |                            |              | 15,533,351      |                 |                         |              |                         | 10,937,440      | 10,937,440     |
| Tip Sites                                                                                                  | 3,198,492       | 3,198,492               |            |                            |              | 3,198,492       | 1,007,959       | 150,027                 |              |                         | 1,157,988       | 2,040,506      |
| Computer Hardware                                                                                          | 24,042,552      | 18,294,841              | 7,640,483  |                            |              | 49,977,876      | 20,481,930      | 7,886,045               | 4,336,533    |                         | 32,714,608      | 17,263,268     |
|                                                                                                            | 255,700,424     | 169,521,246             | 53,353,515 |                            | (638,920)    | 477,936,295     | 98,896,685      | 23,009,410              | 28,400,893   | (568,363)               | 147,738,615     | 330,197,690    |
| <b>Total</b>                                                                                               | 4,698,459,699   | 161,732,814             | 98,374,719 | 789,686,435                | (28,937,564) | 5,709,206,103   | 1,522,842,448   | 232,026,705             | (11,808,709) |                         | 1,743,060,448   | 3,966,146,699  |
| NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2007             |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| ACCUMULATED DEPRECIATION                                                                                   |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
|                                                                                                            | Opening Balance | Transfers / Adjustments | Additions  | Capital Under Construction | Disposals    | Closing Balance | Opening Balance | Transfers / Adjustments | Additions    | Disposals / Adjustments | Closing Balance | Carrying Value |
| <b>Intangible Assets</b>                                                                                   |                 |                         |            |                            |              |                 |                 |                         |              |                         |                 |                |
| Computer Software                                                                                          | 24,507,464      | 115,833,890             | 4,239,422  | 83,131,336                 |              | 227,714,103     | 52,751,788      |                         | 27,591,027   |                         | 80,348,195      | 147,365,908    |

| APPENDIX B(1)                                                                        |                    |                      |                     |                   |                    |                      |
|--------------------------------------------------------------------------------------|--------------------|----------------------|---------------------|-------------------|--------------------|----------------------|
| NELSON MANDELA BAY METROPOLITAN MUNICIPALITY                                         |                    |                      |                     |                   |                    |                      |
| RECONCILIATION OF CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007 |                    |                      |                     |                   |                    |                      |
| Reconciliation of Carrying Value                                                     | Land and Buildings | Infrastructure       | Community           | Heritage          | Other              | Total                |
| <b>Carrying Value 1 July 2006</b>                                                    |                    |                      |                     |                   |                    |                      |
| Cost                                                                                 | 235,130,415        | 3,592,763,979        | 592,209,209         | 39,238,956        | 326,779,470        | 4,786,142,029        |
| Transfers/Adjustments                                                                | 16,897,357         | (30,829,530)         | 7,917,796           | 15,738,468        | (80,799,587)       | (71,075,496)         |
| Disposal                                                                             |                    |                      | (27,267,208)        | 663,924           | (3,550)            | (26,606,834)         |
| Accumulated Depreciation                                                             | (38,882,741)       | (1,202,220,695)      | (184,801,674)       | (50,653)          | (96,886,685)       | (1,522,842,448)      |
|                                                                                      | <b>213,145,031</b> | <b>2,359,733,754</b> | <b>388,058,123</b>  | <b>55,590,695</b> | <b>149,089,648</b> | <b>3,165,617,251</b> |
| <b>Movement during year ended 30 June 2007</b>                                       |                    |                      |                     |                   |                    |                      |
| Acquisition                                                                          | 31,597             | 38,624,698           | 6,364,909           |                   | 53,353,515         | 98,374,719           |
| Capital Under Construction                                                           | 30,453,337         | 573,428,225          | 181,789,161         | 3,925,712         |                    | 789,596,435          |
| Adjustments                                                                          |                    |                      | 5,451,457           | 45,430            | 156,235,927        | 161,732,814          |
| Depreciation                                                                         | 7,212,574          | (211,432,581)        | 191,992             | 402,193           | (28,400,883)       | (232,026,705)        |
|                                                                                      | <b>37,697,508</b>  | <b>400,620,342</b>   | <b>193,797,519</b>  | <b>4,373,335</b>  | <b>181,188,559</b> | <b>817,677,263</b>   |
| <b>Carrying Value of Disposals during year ended 30 June 2007</b>                    |                    |                      |                     |                   |                    |                      |
| Cost                                                                                 | (320,832)          | (6,790,706)          | (21,207,106)        | -                 | (638,920)          | (28,957,564)         |
| Depreciation                                                                         | 128,333            | 3,130,921            | 7,991,091           | -                 | 558,363            | 11,808,708           |
|                                                                                      | <b>(192,499)</b>   | <b>(3,659,785)</b>   | <b>(13,216,015)</b> | <b>-</b>          | <b>(80,557)</b>    | <b>(17,148,856)</b>  |
| <b>Carrying Values at 30 June 2007</b>                                               | <b>250,650,040</b> | <b>2,756,694,311</b> | <b>568,639,627</b>  | <b>59,964,030</b> | <b>330,197,650</b> | <b>3,966,145,658</b> |
| <b>Summary - Carrying Values at 30 June 2007</b>                                     |                    |                      |                     |                   |                    |                      |
| Summary - Cost                                                                       | 282,191,874        | 4,167,216,666        | 745,258,218         | 59,612,490        | 454,926,855        | 5,709,206,103        |
| Summary - Accumulated Depreciation                                                   | (31,541,834)       | (1,410,522,355)      | (176,618,591)       | 351,540           | (124,729,205)      | (1,743,060,445)      |
|                                                                                      | <b>250,650,040</b> | <b>2,756,694,311</b> | <b>568,639,627</b>  | <b>59,964,030</b> | <b>330,197,650</b> | <b>3,966,145,658</b> |

| APPENDIX 'C'                                                                                                         |                      |                         |                              |                     |                      |                      |                         |                    |                     |                      |                      |
|----------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------|------------------------------|---------------------|----------------------|----------------------|-------------------------|--------------------|---------------------|----------------------|----------------------|
| NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007 |                      |                         |                              |                     |                      |                      |                         |                    |                     |                      |                      |
| COST                                                                                                                 |                      |                         |                              |                     |                      |                      |                         |                    |                     |                      |                      |
|                                                                                                                      | Opening Balance      | Transfers / Adjustments | Additions/Under Construction | Disposals           | Closing Balance      | Opening Balance      | Transfers / Adjustments | Additions          | Disposals           | Closing Balance      | Carrying Value       |
| Infrastructure and Engineering Unit - Rate and General                                                               | 1,326,547,059        | (17,869,862)            | 219,835,589                  | -                   | 1,528,512,786        | 601,263,291          | (4,622,134)             | 78,603,831         | -                   | 675,244,988          | 853,267,798          |
| Sanitation Service                                                                                                   | 649,358,939          | (3,310,211)             | 108,937,072                  | -                   | 754,985,800          | 185,983,500          | (1,159,656)             | 31,304,864         | -                   | 216,128,708          | 538,657,092          |
| Water Service                                                                                                        | 474,640,229          | (514,170)               | 77,831,409                   | -                   | 551,957,468          | 167,661,504          | (445,806)               | 23,136,135         | -                   | 190,351,833          | 361,605,635          |
| Electricity and Energy                                                                                               | 1,127,902,369        | (24,223,869)            | 194,913,743                  | -                   | 1,298,592,243        | 293,664,203          | (7,498,237)             | 60,677,633         | -                   | 346,843,599          | 951,748,644          |
| Levies Finance-Office of the Speaker                                                                                 | 355,716              | -                       | -                            | -                   | 355,716              | -                    | -                       | 23,714             | -                   | 23,714               | 332,002              |
| Housing and Land                                                                                                     | 252,468,990          | (17,230,356)            | 15,370,906                   | (5,229,946)         | 245,379,594          | 63,169,104           | (944,079)               | (11,306,703)       | (1,639,171)         | 49,279,151           | 196,100,443          |
| Recreational and Cultural Services                                                                                   | 280,999,137          | 8,865,170               | 17,427,198                   | (21,085,836)        | 286,205,669          | 68,420,706           | (723,406)               | 9,320,973          | (9,324,570)         | 67,693,703           | 218,511,966          |
| Safety and Security                                                                                                  | 116,852,708          | (3,705,453)             | 22,119,154                   | (32,324)            | 135,234,085          | 37,418,805           | (1,690,799)             | 9,993,746          | (19,394)            | 45,702,358           | 89,531,727           |
| Economic Development, Tourism and Agriculture                                                                        | 16,256,071           | 95,846,300              | 20,859,466                   | -                   | 132,961,837          | 6,256,765            | (158,810)               | 652,225            | -                   | 6,750,180            | 126,211,657          |
| Budget and Treasury                                                                                                  | 86,161,662           | (69,888,371)            | 5,330,412                    | -                   | 21,603,703           | 19,532,321           | (17,333,860)            | 783,826            | -                   | 2,982,287            | 18,621,416           |
| Constituency Co-ordinator                                                                                            | 2,407,404            | 114,272                 | 664,229                      | -                   | 3,185,905            | -                    | -                       | -                  | -                   | -                    | 3,185,905            |
| Health                                                                                                               | 25,094,708           | 2,826,991               | 2,703,235                    | (130,740)           | 30,494,194           | 6,021,494            | (1,195,428)             | 1,451,167          | (81,958)            | 6,195,275            | 24,298,919           |
| Environment Services                                                                                                 | 188,482,014          | 70,836,913              | 32,824,454                   | -                   | 292,143,381          | 44,014,603           | -                       | 20,816,549         | -                   | 64,831,152           | 227,312,229          |
| Human Resources and Corporate Administration                                                                         | 134,666,540          | 98,922,944              | 12,207,106                   | (2,478,718)         | 243,317,872          | 27,262,126           | 35,772,215              | 6,199,373          | (743,615)           | 68,490,099           | 174,827,773          |
| Municipal Manager                                                                                                    | 6,286,153            | 21,062,516              | 156,947,181                  | -                   | 184,275,850          | 2,174,026            | -                       | 369,372            | -                   | 2,543,398            | 181,732,452          |
|                                                                                                                      | <b>4,688,459,699</b> | <b>161,732,814</b>      | <b>887,971,154</b>           | <b>(28,957,564)</b> | <b>5,709,206,103</b> | <b>1,522,842,448</b> | <b>-</b>                | <b>232,026,705</b> | <b>(11,808,708)</b> | <b>1,743,060,445</b> | <b>3,966,145,658</b> |

**APPENDIX D  
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007**

| 2006<br>Income       | 2006<br>Actual<br>Expenditure | 2006<br>Surplus/<br>(Deficit) | 2007<br>Actual<br>Income | 2007<br>Actual<br>Expenditure | 2007<br>Surplus/<br>(Deficit) |
|----------------------|-------------------------------|-------------------------------|--------------------------|-------------------------------|-------------------------------|
| 1,536,851            | 105,086,806                   | (103,549,955)                 | 158,724,614              | 291,174,167                   | (132,449,553)                 |
| 1,392,572,594        | 514,862,871                   | 877,709,723                   | 2,145,446,766            | 923,655,338                   | 1,221,791,427                 |
| 56,633,752           | 82,619,141                    | (25,985,389)                  | 69,022,289               | 93,466,211                    | (24,443,922)                  |
| 141,455,728          | 191,269,416                   | (49,813,688)                  | 128,900,978              | 227,849,888                   | (98,948,910)                  |
| 48,765,044           | 182,783,322                   | (134,018,278)                 | 40,343,992               | 208,299,681                   | (167,955,689)                 |
| 5,948,110            | 115,021,533                   | (109,073,423)                 | 12,428,215               | 132,401,509                   | (119,973,294)                 |
| 6,233                | 6,837,209                     | (6,830,976)                   | 26,005,920               | 119,728,834                   | (93,722,915)                  |
| 121,333,506          | 175,888,838                   | (54,555,332)                  | 133,239,035              | 215,892,320                   | (82,653,285)                  |
| 15,946,465           | 119,378,466                   | (103,432,001)                 | 138,626,716              | 247,230,519                   | (108,603,803)                 |
| 326,146,724          | 291,097,911                   | 35,048,813                    | 367,310,633              | 365,741,383                   | 1,569,250                     |
| 1,156,774,183        | 991,914,989                   | 164,859,194                   | 1,231,121,820            | 1,104,159,737                 | 126,962,083                   |
| 6,731,616            | 62,425,992                    | (55,694,376)                  | 10,172,568               | 79,211,323                    | (69,038,755)                  |
| 10,395,897           | 10,352,134                    | 43,763                        | 10,581,674               | 11,424,739                    | (843,065)                     |
| 262,106,278          | 262,126,785                   | (20,507)                      | 305,885,078              | 270,405,883                   | 35,479,195                    |
| <u>3,546,352,981</u> | <u>3,111,665,412</u>          | <u>434,687,569</u>            | <u>4,777,810,296</u>     | <u>4,290,641,532</u>          | <u>487,168,764</u>            |

| APPENDIX E(1)<br>NELSON MANDELA BAY METROPOLITAN MUNICIPALITY<br>ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2007 |                      |                      |                      |                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                 | 2007<br>Actual       | Budget (R)           | 2007 Variance<br>(R) | 2007 Variance<br>(%)                                                                                                                                                                                                                                         |
| <b>REVENUE</b>                                                                                                                                  |                      |                      |                      |                                                                                                                                                                                                                                                              |
| Property rates                                                                                                                                  | 533,190,365          | 541,872,790          | (8 682 425)          | -2                                                                                                                                                                                                                                                           |
| Service charges                                                                                                                                 | 1,653,138,228        | 1,636,668,000        | 16 470 228           | 1                                                                                                                                                                                                                                                            |
| Interest earned - external investments                                                                                                          | 141,611,910          | 134,951,780          | 6 660 130            | 5                                                                                                                                                                                                                                                            |
| Interest earned - outstanding debtors                                                                                                           | 77,367,970           | 55,710,000           | 21 657 970           | 39                                                                                                                                                                                                                                                           |
|                                                                                                                                                 |                      |                      |                      | 39 Increase in arrear debtors resulting in an increase in interest raised on outstanding debtor balances. Interest rate increased more than anticipated.                                                                                                     |
| Fines                                                                                                                                           | 17,368,619           | 21,666,190           | (4 297 571)          | -20                                                                                                                                                                                                                                                          |
|                                                                                                                                                 |                      |                      |                      | -20 Due to the <i>ad hoc</i> nature of this income, accurate income projections are not possible.                                                                                                                                                            |
| Licences and permits                                                                                                                            | 6,409,122            | 6,371,520            | 37 602               | 1                                                                                                                                                                                                                                                            |
| Government grants and subsidies                                                                                                                 | 1,251,855,724        | 567,391,660          | 684 464 064          | 121                                                                                                                                                                                                                                                          |
| Other income                                                                                                                                    | 218,536,032          | 183,111,040          | 35 424 992           | 19                                                                                                                                                                                                                                                           |
|                                                                                                                                                 |                      |                      |                      | 121 Actual grants received in excess of original allocations<br>19 Due to the <i>ad hoc</i> nature of this income, accurate income projections are not possible.                                                                                             |
| Gains on disposal of property, plant and equipment                                                                                              | 593,785              | 21,300               | 572 485              | 2688                                                                                                                                                                                                                                                         |
|                                                                                                                                                 |                      |                      |                      | 2688 More property, plant and equipment disposed of than initially anticipated                                                                                                                                                                               |
| Contributions: Other                                                                                                                            | 877,738,544          | 6,246,030            | 871 492 514          | 13953                                                                                                                                                                                                                                                        |
|                                                                                                                                                 |                      |                      |                      | 13953 This was necessitated to adjust the provisions to the appropriate levels                                                                                                                                                                               |
| <b>Total Revenue</b>                                                                                                                            | <b>4,777,810,297</b> | <b>3,154,010,310</b> | <b>1,623,799,987</b> | <b>51</b>                                                                                                                                                                                                                                                    |
| <b>EXPENDITURE</b>                                                                                                                              |                      |                      |                      |                                                                                                                                                                                                                                                              |
| Employee related costs                                                                                                                          | 1,036,653,107        | 1,025,708,420        | 10 944 687           | 1                                                                                                                                                                                                                                                            |
| Remuneration of Councillors                                                                                                                     | 35,335,941           | 37,128,850           | (1 792 909)          | -5                                                                                                                                                                                                                                                           |
| Bad debts                                                                                                                                       | 19,604,984           | 2,134,700            | 17 470 284           | 818                                                                                                                                                                                                                                                          |
|                                                                                                                                                 |                      |                      |                      | 818 Increased bad debt write-offs due to escalating outstanding debtors.                                                                                                                                                                                     |
| Collection costs                                                                                                                                | 2,061,166            | 2,177,030            | ( 115 864)           | -5                                                                                                                                                                                                                                                           |
| Depreciation                                                                                                                                    | 266,587,719          | 212,002,090          | 54 585 629           | 26                                                                                                                                                                                                                                                           |
|                                                                                                                                                 |                      |                      |                      | 26 Review of projects resulted in an adjustment to the anticipated depreciation                                                                                                                                                                              |
| Repairs and maintenance                                                                                                                         | 307,142,106          | 278,089,900          | 29 052 206           | 10                                                                                                                                                                                                                                                           |
|                                                                                                                                                 |                      |                      |                      | 10 Higher cost and an effort to decrease backlogs in repairs and maintenance resulted in higher levels of expenditure.                                                                                                                                       |
| Interest paid                                                                                                                                   | 24,183,338           | 28,430,730           | (4 247 392)          | -15                                                                                                                                                                                                                                                          |
|                                                                                                                                                 |                      |                      |                      | -15 Interest paid decreased due to refinancing certain external loans                                                                                                                                                                                        |
| Bulk purchases                                                                                                                                  | 666,322,864          | 676,654,920          | (10 332 056)         | -2                                                                                                                                                                                                                                                           |
| Grants and subsidies paid                                                                                                                       | 42,970,595           | 13,507,790           | 29 462 805           | 218                                                                                                                                                                                                                                                          |
|                                                                                                                                                 |                      |                      |                      | 218 Additional grants were allocated to entities for operational purposes, as more projects were allocated to entities. The main reason for the difference is that grants paid from the Levies funded Operating Budget were included under General Expenses. |
| General expenses                                                                                                                                | 629,994,135          | 351,614,840          | 278 379 295          | 79                                                                                                                                                                                                                                                           |
|                                                                                                                                                 |                      |                      |                      | 79 Expenditure incurred relating to housing for structures not originally budgeted for pending receipt of subsidies from Provincial Government.                                                                                                              |
| Contributions To/(From) Provisions                                                                                                              | 1,259,785,579        | 526,561,040          | 733 224 539          | 139                                                                                                                                                                                                                                                          |
|                                                                                                                                                 |                      |                      |                      | 139 This was necessitated to adjust the provisions to the appropriate levels                                                                                                                                                                                 |
| <b>Total Expenditure</b>                                                                                                                        | <b>4,290,641,532</b> | <b>3,154,010,310</b> | <b>1,136 631 222</b> | <b>36</b>                                                                                                                                                                                                                                                    |

**APPENDIX E(2)**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2007**

|                                                                  | 2007 Budget          | Additions /<br>Under<br>Construction | Variance R         | % Variance | Explanation of Variances greater than 10 %                                                                     |
|------------------------------------------------------------------|----------------------|--------------------------------------|--------------------|------------|----------------------------------------------------------------------------------------------------------------|
| Infrastructure and Engineering Directorate -<br>Rate and General | 341,301,100          | 222,152,407.00                       | 119,148,693        | 35         | Delayed implementation mainly as a result of non-availability of planners                                      |
| Housing and Land                                                 | 4,878,000            | 19,818,030.00                        | (14,940,030)       | -306       | Services are implemented in order for top structure construction to take place                                 |
| Recreational and Cultural Services                               | 14,000,000           | 17,450,125.00                        | (3,450,125)        | -25        | Additional projects were identified                                                                            |
| Safety and Security                                              | 17,530,000           | 22,119,154.00                        | (4,589,154)        | -26        | Delays in delivery in the previous financial year were expedited in the current financial year.                |
| Economic Development, Tourism and Agriculture                    | 8,462,000            | 20,859,466.00                        | (12,397,466)       | -147       | Escalation of construction cost caused additional funds to be sought to complete projects                      |
| Budget and Treasury                                              | 85,990,000           | 72,084,574.00                        | 13,905,426         | 16         | Delays experienced in the roll-out of the General Rates Valuation                                              |
| Constituency Co-ordinator                                        | 2,700,000            | 664,229.00                           | 2,035,771          | 75         | Identification of suitable erven presented challenges                                                          |
| Health                                                           | 9,383,850            | 2,703,235.00                         | 6,680,615          | 71         | Escalation of construction costs caused delays                                                                 |
| Environment Services                                             | 27,958,230           | 32,824,454.00                        | (4,866,224)        | -17        | Additional projects were identified                                                                            |
| Corporate Administration                                         | 27,050,000           | 21,620,957.00                        | 5,429,043          | 20         | Escalation of construction cost caused delays                                                                  |
| Sanitation - Municipality                                        | 178,890,000          | 110,346,388.00                       | 68,543,612         | 38         | Part of the funding for bucket eradication was withdrawn, as it was only intended for formal areas             |
| Municipal Water Service                                          | 99,328,100           | 77,896,606.00                        | 21,431,494         | 22         | Delayed implementation as a result of non-availability of planners                                             |
| Municipal Manager                                                | 350,000,000          | 156,947,181.00                       | 193,052,819        | 55         | Construction of the stadium commenced later than anticipated pending finalisation of the funding arrangements. |
| Electricity and Energy                                           | 206,702,000          | 197,857,106.00                       | 8,844,894          | 4          |                                                                                                                |
|                                                                  | <b>1,374,173,280</b> | <b>975,343,912</b>                   | <b>398,829,368</b> | <b>29</b>  |                                                                                                                |



**APPENDIX F  
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2007**

| Name of Grants                          | Name of Organ of State | Quarterly Receipts |            |             |            |             |            | Total Funds Received | Quarterly Expenditure |            |             |             |         |            | Reasons for Delay | Did Municipality comply with grant conditions |
|-----------------------------------------|------------------------|--------------------|------------|-------------|------------|-------------|------------|----------------------|-----------------------|------------|-------------|-------------|---------|------------|-------------------|-----------------------------------------------|
|                                         |                        | July-Sept          | Oct-Dec    | Jan-Mar     | April-June | July-Sept   | Oct-Dec    |                      | Jan-Mar               | April-June | July-Sept   | Oct-Dec     | Jan-Mar | April-June |                   |                                               |
| Financial Management Grant              | NT                     | 1,000,000          |            |             |            |             | 1,000,000  | 103,079              | 252,095               | 66,292     | 1,121,872   | 1,543,338   | N/A     | Yes        |                   |                                               |
| National Electrification Programme      | DME                    | 8,333,333          | 7,017,544  | 3,254,386   | 2,177,000  | 20,782,263  | 3,919,987  | 4,196,397            | 2,748,873             | 4,382,679  | 15,257,936  | N/A         | Yes     |            |                   |                                               |
| Municipal Infrastructure Grant          | DPLG                   | 37,000,000         | 19,000,000 | 56,666,667  | 19,590,614 | 132,257,281 | 29,154,180 | 19,044,739           | 10,128,591            | 21,730,720 | 80,058,230  | N/A         | Yes     |            |                   |                                               |
| Restructuring Grant                     | NT                     | 0                  | 25,000,000 |             |            | 25,000,000  | 7,487,062  | 8,838,662            | 6,591,281             | 66,558,104 | 89,475,109  | N/A         | Yes     |            |                   |                                               |
| Equitable Share (excluding MJRP)        | DPLG                   | 75,132,279         | 56,543,504 | 93,674,501  |            | 225,350,284 | 35,060,206 | 44,652,481           | 40,493,976            | 38,734,972 | 158,941,635 | N/A         | Yes     |            |                   |                                               |
| RSC Levies Replacement Grant            | DPLG                   | 82,215,317         | 61,874,100 | 102,505,592 |            | 246,595,009 |            |                      |                       | 45,003,540 | 166,049,855 | 211,053,395 | N/A     | Yes        |                   |                                               |
| Effective Disaster Management           | DPLG                   | 1,500,000          |            |             |            | 1,500,000   | 436,351    | 480,376              | 589,447               | 653,628    | 2,159,802   | N/A         | Yes     |            |                   |                                               |
| MSIG - Project Consolidate              | DPLG                   | 2,000,000          | 2,000,000  |             |            | 4,000,000   | 1,120,699  | 809,078              | 14,410                | 1,672,620  | 3,616,807   | N/A         | Yes     |            |                   |                                               |
| FIFA World Cup (Construction of Stadia) | NT                     |                    |            | 110,086,628 |            | 110,086,628 |            |                      | 36,258,655            | 73,547,340 | 109,805,995 | N/A         | Yes     |            |                   |                                               |
| FIFA World Cup (Transport or PTIF)      | NT                     | 30,000,000         |            | 38,600,000  | 0          | 68,600,000  | 781,212    | 2,118,922            | 9,551,782             | 27,103,305 | 39,555,221  | N/A         | Yes     |            |                   |                                               |
| Motherwell Urban Renewal Programme      | DPLG                   | 5,175,370          | 3,450,247  | 6,900,494   |            | 15,526,111  | 2,222,967  | 2,586,270            | 1,802,375             | 3,106,502  | 9,698,114   | N/A         | Yes     |            |                   |                                               |

## APPENDIX G

## NELSON MANDELA BAY MUNICIPALITY: NATIONAL TREASURY IMPLEMENTATION PLAN for ACHIEVING FULL COMPLIANCE WITH APPLICABLE ACCOUNTING STANDARDS

| Financial reporting standard             | Extent of exemption from standard                                                                                          | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------|
| Property, plant and equipment (GAMAP 17) | Review of useful life of items of PPE recognised in the annual financial statements<br><i>[Paragraphs 59 – 61, and 77]</i> | <p>1) CFO to communicate the requirement for the review of useful lives of PPE to all custodians of assets through a workshop/written communication.</p> <p>2) CFO to issue a memo to all executive directors annually requesting them to ensure that the remaining useful lives of all items of PPE under their control as per the Fixed Asset Register (FAR) is realistic.</p> <p>3) Executive directors will inform the manager responsible for items of PPE where the remaining useful lives are shorter or longer than those reflected on the FAR annually.</p> <p>4) The useful lives in the asset register will annually be amended for items identified and the depreciation charge adjusted for the current and future periods.</p> | CFO/ Executive directors | 1 July 2008                                                               |
|                                          |                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | CFO/ Executive directors | 1 July 2008                                                               |
|                                          |                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | CFO/ Executive directors | 31 December 2008                                                          |
|                                          |                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | CFO                      | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard                                                                                           | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------|
|                              |                                                                                                                             | 5) Pass necessary accounting entries and also do necessary disclosure of the change in estimate (nature of change in estimate, amounts involved, effect on future periods).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | CFO                      | 30 June 2009                                                              |
|                              | Review of depreciation method applied to PPE recognised in the annual financial statements<br><i>[Paragraphs 62 and 77]</i> | <p>1) CFO to issue a memo to all executive directors annually to request them to ensure that the depreciation method used to depreciate all items of PPE under their control as per the FAR is realistic.</p> <p>2) CFO to annually review the depreciation method used to depreciate different classes of assets to assess its applicability for each class of asset.</p> <p>3) Executive directors will inform the manager responsible for assets of items of PPE with remaining useful lives shorter or longer than those reflected annually on the FAR.</p> <p>4) Pass necessary accounting entries and also do necessary disclosure of the change in estimate.</p> | CFO/ Executive directors | 1 July 2008                                                               |
|                              |                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO/ Executive directors | 1 July 2008                                                               |
|                              |                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO/ Executive directors | 31 December 2008                                                          |
|                              |                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO                      | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard                                                           | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                              | Impairment of non-cash-generating assets<br><i>[Paragraphs 64 – 69 and 75(e)(v) – (vi)]</i> | <p>1) CFO to issue a memo (including a printout of the FAR per directorate) annually to all executive directors to identify items of PPE that may have suffered impairment losses, requesting them to identify assets that:</p> <ul style="list-style-type: none"> <li>➤ Are in a state of permanent damage at year-end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end);</li> <li>➤ Are stolen at year-end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>➤ Are technologically obsolete at year-end (the inclusion of FAR printouts per directorate will facilitate this process - remaining useful lives of major assets are shown on these FAR printouts and the executive directors can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout);</li> <li>➤ Have remained idle for a considerable period either prior to</li> </ul> | CFO/ Executive directors | 1 July 2008                                                               |

| Financial reporting standard | Extent of exemption from standard                                                  | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                    | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------|
|                              |                                                                                    | <p>them being put into use at year-end or during their useful life;</p> <ul style="list-style-type: none"> <li>➤ Show that they are not performing according to their specifications or according to industry accepted norms.</li> <li>2) Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</li> </ul>                   | CFO                      | 30 June 2009                                                              |
|                              | Impairment of cash-generating assets<br><i>[Paragraphs 63 and 75(e)(v) – (vi)]</i> | <ul style="list-style-type: none"> <li>1) CFO to issue a memo (including a printout of the FAR per directorate) annually to all executive directors to identify items of PPE that may have suffered impairment losses, requesting them to identify assets that: <ul style="list-style-type: none"> <li>➤ Are in a state of permanent damage at year-end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year-end);</li> </ul> </li> </ul> | CFO/ Executive directors | 1 July 2008                                                               |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              |                                   | <ul style="list-style-type: none"> <li>➤ Are stolen at year-end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>➤ Are technologically obsolete at year-end (the inclusion of FAR printouts per directorate will facilitate this process - remaining useful lives of major assets are shown on these FAR printouts and the executive directors can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout);</li> <li>➤ Have remained idle for a considerable period either prior to them being put into use at year-end or during their useful life;</li> <li>➤ Show that they are not performing according to their specifications or according to industry accepted norms.</li> </ul> <p>2) Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</p> | CFO                | 30 June 2009                                                              |

| Financial reporting standard                | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|---------------------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------|
| <b>Impairment of Assets (IAS 36/AC 128)</b> | Entire Standard                   | <p>1) CFO to issue a memo (including a printout of the FAR per directorate) annually to all executive directors to identify items of PPE that may have suffered impairment losses, requesting them to identify assets that:</p> <ul style="list-style-type: none"> <li>➤ Are in a state of permanent damage at year-end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end);</li> <li>➤ Are stolen at year-end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>➤ Are technologically obsolete at year-end (the inclusion of FAR printouts per directorate will facilitate this process - remaining useful lives of major assets are shown on these FAR printouts and the executive directors can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout);</li> <li>➤ Have remained idle for a considerable period either prior to</li> </ul> | CFO/ Executive directors | 1 July 2008                                                               |

| Financial reporting standard  | Extent of exemption from standard                                                                                         | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                               | Person responsible                        | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------------------------------------------------|
|                               |                                                                                                                           | <p>them being put into use at year-end or during their useful life;</p> <p>➤ Show that they are not performing according to their specifications or according to industry accepted norms.</p> <p>2) Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</p>                           | CFO                                       | 30 June 2009                                                              |
| <b>Inventories (GAMAP 12)</b> | The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17 | <p>Currently, the Municipality does not reflect land that will be sold within the next twelve months as inventories, but carries these items as part of PPE. The following implementation plans will need to be executed to ensure compliance with GAMAP 12:</p> <p>1) Ensure that all land and buildings under the control of the Municipality are reflected on the Fixed Asset Register of the Municipality by implementing the action plans set</p> | CFO/ Executive Director: Housing and Land | 31 December 2008                                                          |



| Financial reporting standard                      | Extent of exemption from standard                                                                | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Person responsible                                                                                           | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
|                                                   |                                                                                                  | <p>out as points 1) to 3) for the section on Investment Property as set out below.</p> <p>2) Ensure that at the first balance sheet date, this specific requirement of GAMAP 12 will be implemented to show these assets as inventories, that all land and buildings that will be sold within the following twelve months are removed from the FAR and are reclassified as inventories.</p> <p>3) Ensure that these inventories are measured at the lower of cost price and Net Realisable Value (NRV).</p> <p>4) Ensure that the necessary disclosure requirements relating to inventories of land and buildings are met.</p> | <p>CFO/ Executive Director: Housing and Land</p> <p>CFO/ Executive Director: Housing and Land</p> <p>CFO</p> | <p>30 June 2009</p> <p>30 June 2009</p> <p>30 June 2009</p>               |
| <p><b>Investment Property (IAS 40/AC 135)</b></p> | <p>The entire standard to the extent that the property is accounted for in terms of GAMAP 17</p> | <p>1) Perform a title deeds search to identify all land and buildings under control of the Municipality.</p> <p>2) Compare the results of the title deeds search to the Fixed Asset Register and the Valuation Roll and adjust the FAR to reflect all land and buildings under control of the Municipality.</p>                                                                                                                                                                                                                                                                                                                | <p>Executive Director: Housing and Land</p> <p>CFO/ Executive Director: Housing and Land</p>                 | <p>1 July 2008</p> <p>31 December 2008</p>                                |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Person responsible                                                                | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i>       |
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|                              |                                   | <p>3) Value all land and buildings, which were previously not reflected on the FAR at fair value where historical cost prices and acquisition dates are unknown.</p> <p>4) Identify and reclassify as Investment Property (IP) all land and buildings reflected on the updated FAR meeting the definition of Investment Property as per IAS 40.</p> <p>5) Decide on an accounting policy for the subsequent measurement of IP, i.e. cost price less accumulated depreciation or Fair Value. The cost model for IP is not desirable nor does it result in fair presentation (it is highly unlikely that IP will depreciate in value, nor will its value be impaired under normal circumstances – IAS 40 encourages a municipality to rather apply the fair value model opposed to the cost model).</p> <p>6) Ensure that the necessary procedures are put in place to ensure the proper accounting treatment of IP after initial recognition to deal with the</p> | <p>CFO/ Executive Director: Housing and Land</p> <p>CFO</p> <p>CFO</p> <p>CFO</p> | <p>30 June 2009</p> <p>30 June 2009</p> <p>30 June 2009</p> <p>30 June 2009</p> |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                              |                                   | <p>accounting for subsequent expenditure, disposal of IP, transfers of IP, fair value increases, etc.</p> <p>7) Property held for sale in the coming financial year (2007/2008) will have to be calculated and transferred to Inventory.</p> <p>8) According to IAS 40 the following disclosure requirements are listed that will be included in the AFS of the Municipality:-</p> <ul style="list-style-type: none"> <li>➤ The gross carrying amount of cost price and accumulated depreciation at the beginning and the end of the period;</li> <li>➤ A reconciliation of the carrying amount of Investment Property at the beginning and the end of the period, showing additions, improvements, disposals, fair value adjustments, depreciation and impairment; and</li> <li>➤ Transfers to or from Investment Properties and Investment Properties reclassified as held for sale.</li> </ul> | CFO                | 30 June 2008                                                              |
|                              |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | CFO                | 30 June 2009                                                              |

| Financial reporting standard  | Extent of exemption from standard                                                                                                                                                                                                                             | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Person responsible                                                                       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                               | Disclosure of the fair value of investment property if the cost model is applied and where the Municipality has recognised the investment property in terms of the standard.<br><i>[Paragraphs IAS 40.79 (e)/(i) – (iii)]</i>                                 | Ensure that, even if IP is reflected at cost, procedures are put in place to obtain the Fair Value of IP at each Balance Sheet date for inclusion in the notes to the AFS.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | CFO                                                                                      | 30 June 2009                                                              |
| <b>Leases (IAS 17/AC 105)</b> | 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 agreement.<br><i>[SA/CA Circular 12/06 Paragraphs 8 – 11 and Paragraphs 33, 34, 50, 51 of IAS 17/AC 105]</i> | <ol style="list-style-type: none"> <li>1) Municipality as lessee: operating leases that have fluctuating payment arrangements must be identified.</li> <li>2) Municipality as lessor: operating leases that have fluctuating payment arrangements must be identified.</li> <li>3) Current y, operating lease payments are accounted for based on the cash flows in the lease agreement and therefore the actual amount of lease installments incurred per annum is recognised in the Statement of Financial Performance. Once straight lining is done on the amount recognised in the Statement of Financial Performance and will be the</li> </ol> | CFO/ Executive directors<br><br>Executive Director: Housing and Land (lessor)<br><br>CFO | 30 June 2008<br><br>30 June 2009<br><br>30 June 2009                      |

| Financial reporting standard         | Extent of exemption from standard                                                                                                                                              | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                | Person responsible                  | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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| Intangible Assets<br>(IAS 38/AC 129) | The entire standard, except for the recognition, measurement and disclosure of computer software equipment and website costs (SIC 32/AC 432) and all other costs are expensed. | average annual instalment calculated over the entire lifespan of the lease. If the actual instalments in a year are more than the average instalment the difference will be shown as a prepayment (debtor) in the AFS. If the actual instalments in a year are less than the average instalment, the difference will be shown as an accrual (creditor) in the AFS.                                                                                                                                                                      |                                     |                                                                           |
|                                      |                                                                                                                                                                                | Classification and initial measurement of Intangible Assets not yet accounted for in terms of IAS 38:<br><br>1) All assets that meet the definition of an intangible asset and the recognition criteria for an asset will be identified by scrutinising the FAR and capital purchases file/vouchers.<br><br>2) All intangible assets identified will be measured initially at their cost price.<br>Examples of items that may meet the definition of an intangible asset in the municipal environment are:<br>• The cost of the General | CFO/ Executive directors<br><br>CFO | 1 July 2008<br><br>30 June 2009                                           |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                        | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                              |                                   | Valuation Roll; <ul style="list-style-type: none"> <li>• A licence fee for operating a tip site, where the fee grants to the Municipality the right to operate the tip site for a period of longer than one year; and</li> <li>• Servitudes.</li> </ul>                                                                                                         |                    |                                                                           |
|                              |                                   | 3) Necessary procedures will be put in place to ensure the proper accounting treatment of Intangible assets after initial recognition to deal with the accounting for subsequent expenditure, amortisation, review of useful lives of intangible assets, retirements and disposals of intangible assets and internally generated intangible assets.             | CFO                | 30 June 2009                                                              |
|                              |                                   | 4) The following adjustments will need to be made to the intangible assets (excluding computer software equipment and website costs) currently reflected as PPE in the Asset Register: <ul style="list-style-type: none"> <li>• If any intangible assets are currently classified as part of PPE, then the full application of IAS 38 will lead to a</li> </ul> | CFO                | 30 June 2009                                                              |

| Financial reporting standard             | Extent of exemption from standard                                                                                                                                                                                                            | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Person responsible                                           | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                                          |                                                                                                                                                                                                                                              | <p>reclassification of these items as intangible assets. This will result in a reduction in the carrying amount of PPE and an increase in intangible assets.</p> <p>5) If intangible assets have been incorrectly expensed in the past, this can be regarded as a prior period error and will be corrected retrospectively by applying GRAP 3. This will lead to a restatement (increase) of the opening balance of the Accumulated Surplus Account as well as an increase in the Asset Value on the Statement of Financial Position of the Municipality.</p> | CFO                                                          | 30 June 2009                                                              |
| <b>Employee Benefits (IAS 19/AC 116)</b> | Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and the defined benefit obligation disclosed by narrative information.<br><i>[Paragraphs 29, 48 – 119, 120A(c)-(q)]</i> | <p>Currently, the Municipality does not account for its defined benefit plans and other long-term employee benefits in terms of IAS 19. The following will be done by the Municipality:</p> <ol style="list-style-type: none"> <li>1) Determine and draw up a detailed list of all of the Municipality's post-retirement benefit plans.</li> <li>2) Ensure that the necessary actuarial valuations are requested for all of the above-mentioned identified</li> </ol>                                                                                         | Executive Director.<br>Corporate Services/<br>CFO<br><br>CFO | 31 January 2008<br><br>30 June 2009                                       |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                   | Person responsible                                | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                              |                                   | <p>plans to ensure that the relevant information is obtained to enable the Municipality to account for the defined benefit plan (the actuaries will also have to confirm that these identified plans are indeed defined benefit plans). Request that the consultants tasked with preparing the actuarial reports provide the Municipality with an indication of the journal entries and disclosure of these entries in the AFS for the financial year.</p> |                                                   |                                                                           |
|                              |                                   | <p>3) Determine if there are any multi-employer plans in existence (e.g. Joint Municipal Pension Funds) within the Municipality.</p>                                                                                                                                                                                                                                                                                                                       | Executive Director:<br>Corporate Services/<br>CFO | 30 June 2009                                                              |
|                              |                                   | <p>4) Should the Municipality be a member of multi-employer plans, obtain the necessary actuarial information from the various fund administrators in this regard for all such plans, as required by IAS 19.29 and IAS 19.30.</p>                                                                                                                                                                                                                          | Executive Director:<br>Corporate Services/<br>CFO | 30 June 2009                                                              |
|                              |                                   | <p>5) Draft a list of the other accounting treatment and disclosure requirements of IAS 19 and ensure</p>                                                                                                                                                                                                                                                                                                                                                  | CFO                                               | 30 June 2009                                                              |



| Financial reporting standard | Extent of exemption from standard                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i> | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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| Revenue (GAMAP 9)            | Initial measurement of fair value discounting all future receipts using an imputed rate of interest.<br><i>[SAICA circular 09/06 and paragraph 12]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | that these requirements are met in the AFS.                                                              |                    |                                                                           |
|                              | <p>In terms of GAMAP 9, revenue is measured at the fair value of the consideration received. In most cases the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is <b>deferred</b>, for example where the entity provides an interest free credit period to the purchaser, the fair value of the revenue must be determined by discounting all future receipts by using an imputed rate of interest.</p> <p>The Municipality does not envisage entering into transactions where an interest free credit period is provided to the purchaser of services or goods from the Municipality and therefore it is highly unlikely that the Municipality will be faced with this type of transaction.</p> <p>In terms of SAICA Circular 9 of 2006, ensure that the following is done:</p> |                                                                                                          |                    |                                                                           |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                              |                                   | <p>1) Prepare a list of all settlement discounts received for prompt settlement of creditors in respect of inventories purchased.</p> <p>2) Ensure that these settlement discounts have been deducted from the cost price of the inventories concerned.</p> <p>3) If these settlement discounts have been accounted for as other income, ensure that the other income is reversed to cost of inventories in respect of inventories that are still on hand and to inventories expensed in respect of inventories that have been sold or utilised by the Municipality.</p> <p>4) It is highly unlikely that the municipality has received extended payment terms. If it had received extended payment terms, the requirements of SAICA Circular 9/06.23 to .30 will be met. These paragraphs essentially state and require the following:</p> <p>i. IAS 39 – <i>Financial Instruments: Recognition and Measurement</i> applies to the payable in such circumstances, and the effect of the time value of money should</p> | CFO                | 30 June 2008                                                              |
|                              |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO                | 30 June 2008                                                              |
|                              |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO                | 30 June 2008                                                              |
|                              |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CFO                | 30 June 2008                                                              |

| Financial reporting standard                                              | Extent of exemption from standard                                                                                                                              | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
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|                                                                           |                                                                                                                                                                | <p>be reflected when this is material (IAS 39 paragraphs AG69-AG82); and</p> <p>ii. Furthermore, Paragraph 18 of IAS 2 addresses deferred settlement terms and states that when the arrangement effectively contains a financing element, that element must be recognised as interest over the period of the financing. It also provides an example of a financing element – where there is a difference between the purchase price for normal credit terms and the amount paid.</p> <p>5) The re-allocation of SAICA Circular 9/06 related transactions will require system posting adjustments which will be performed in the 2007/08 financial year.</p> | CFO                | 30 June 2008                                                              |
| <b>Financial Instruments: Recognition and Measurement (IAS 39/AC 133)</b> | Initially measuring financial assets and financial liabilities at fair value.<br><i>[SAICA circular 09/06, paragraph 43, AG 79, AG 64 and AG 65 of IAS 39/</i> | The Municipality is of the opinion that it is, through its normal activities, complying with the requirements of the initial measurement of IAS 39. According to IAS 39 Application Guidance Par. 64 and 76A, the fair value of a financial                                                                                                                                                                                                                                                                                                                                                                                                                 | CFO                | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              | AC 133]                           | <p>instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). However, in cases that might be identified where initial recognition is not done correctly, the following actions will be required.</p> <p>1) Initial recognition: IAS 39 requires recognition of a financial asset or a financial liability when, and only when, the entity becomes a party to the contractual provisions of the instrument, subject to the following provisions in respect of regular way purchases.</p> <p>2) Initial measurement: Initially, financial assets and liabilities will be measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss.</p> <p>Action: Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length</p> | CFO                | 30 June 2009                                                              |
|                              |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | CFO                | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              |                                   | <p>transaction. IAS 39 provides a hierarchy to be used in determining the fair value for a financial instrument, which are the following:</p> <ul style="list-style-type: none"> <li>➤ Quoted market prices in an active market are the best evidence of fair value and will be used, where they exist, to measure the financial instrument.</li> <li>➤ If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.</li> <li>➤ If there is no active market for an equity instrument and the range of reasonable fair values is significant</li> </ul> |                    |                                                                           |

| Financial reporting standard                                                       | Extent of exemption from standard                                                                                                                                                              | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                      | Person responsible       | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------|
|                                                                                    |                                                                                                                                                                                                | and these estimates cannot be made reliably, then an entity must measure the equity instrument at cost less impairment.                                                                                                                                                                                                                                       |                          |                                                                           |
| <b>Non-current Assets held for Sale and Discontinued Operations (IFRS 5/AC142)</b> | Classification, measurement and disclosure of non-current assets held for sale.<br><i>[Paragraphs 6 – 14, 15 – 29 (in so far as they relate to non-current assets held for sale), 38 – 42]</i> | <ol style="list-style-type: none"> <li>1) Print-outs of the FAR per directorate will be made and distributed to each respective executive director. The executive directors will scrutinise the FAR applicable to their directorate and identify assets that meet the criteria for non-current assets held for sale as set out by IFRS 5.6 to .11.</li> </ol> | CFO/ Executive directors | 30 June 2009                                                              |
|                                                                                    |                                                                                                                                                                                                | <ol style="list-style-type: none"> <li>2) The executive directors will return their FAR to the CFO and indicate the assets that meet the above-mentioned criteria.</li> </ol>                                                                                                                                                                                 | CFO/ Executive directors | 30 June 2009                                                              |
|                                                                                    |                                                                                                                                                                                                | <ol style="list-style-type: none"> <li>3) CFO will ensure that every directorate returns its FAR and ensure that it has been signed-off as proof that it has been reviewed.</li> </ol>                                                                                                                                                                        | CFO                      | 30 June 2009                                                              |
|                                                                                    |                                                                                                                                                                                                | <ol style="list-style-type: none"> <li>4) Scrutinise the fixed asset votes in the GL after year-end up to the date when the financial statements are prepared, to identify assets that are</li> </ol>                                                                                                                                                         | CFO/ Executive directors | 30 June 2009                                                              |

| Financial reporting standard                              | Extent of exemption from standard                                                                                                                                         | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                  | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                                                           |                                                                                                                                                                           | <p>sold after year-end and meet the IFRS 5.6 to 11 requirements at year-end. Ensure that these assets are classified as non-current assets held for sale in the Financial Statements for the year under review.</p> <p>5) Measure and disclose the non-current assets held for sale in accordance with IFRS 5 requirements.</p>                                                                                                                                                                                                           | CFO                | 30 June 2009                                                              |
| <b>Financial Instruments: Disclosures (IFRS 7/AC 144)</b> | <p>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.</p> | <p>1) Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.</p> <p>2) The Municipality will group its financial instruments into classes of similar instruments and, when disclosures are required, make disclosures by class. The two main categories of disclosures are:</p> <ul style="list-style-type: none"> <li>➤ Information about the significance of financial instruments.</li> <li>➤ Information about the nature</li> </ul> | CFO                | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              |                                   | <p>and extent of risks arising from financial instruments.</p> <p><b>Action: The following disclosures for each of the categories will be included:</b></p> <p><b><u>Balance sheet:</u></b></p> <ul style="list-style-type: none"> <li>➤ Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.</li> <li>➤ Held-to-maturity investments.</li> <li>➤ Loans and receivables.</li> <li>➤ Available-for-sale assets.</li> <li>➤ Financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.</li> <li>➤ Financial liabilities measured at amortised cost.</li> </ul> |                    |                                                                           |



| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              |                                   | <p><b><u>Income statement:</u></b></p> <ul style="list-style-type: none"> <li>➤ <i>Items of income, expense, gains, and losses, with separate disclosure of gains and losses from financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition, held-to-maturity investments, loans and receivables, available-for-sale assets, financial liabilities measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition and financial liabilities measured at amortised cost.</i></li> <li>➤ <i>Interest income and interest expense for those financial instruments that are not measured at fair value through profit and loss.</i></li> <li>➤ <i>Fee income and expense.</i></li> <li>➤ <i>Amount of impairment losses on financial assets.</i></li> <li>➤ <i>Interest income on impairment financial assets.</i></li> </ul> |                    |                                                                           |

| Financial reporting standard                                                             | Extent of exemption from standard                                                                                                                 | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                                                                                          |                                                                                                                                                   | <p><b>Other disclosures:</b></p> <ul style="list-style-type: none"> <li>➤ Accounting policies for financial instruments.</li> <li>➤ Note that disclosure of fair values is not required when the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables, or for instruments whose fair value cannot be measured reliably. <b>(IFRS 7 par 29 (a) and (b))</b></li> </ul>                                                                                                                                                                                       |                    |                                                                           |
| Accounting for Government Grants and disclosure of Government Assistance (IAS 20/AC 134) | 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 | <ol style="list-style-type: none"> <li>1) Currently all conditional capital grants received for the purchase of PPE are accounted for in terms of the NT GRAP implementation guidelines dated June 2005 and also GAMAP 9.42 to 46.</li> <li>2) On receipt of a conditional capital government grant, the amount is banked and reflected as a current liability called Unspent Conditional Grants and Receipts. Once the amount is spent in accordance with the grant conditions, a transfer is made from the current liability to the Statement of Financial Performance equal to the amount that has been</li> </ol> | CFO                | 30 June 2009                                                              |

| Financial reporting standard | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                              |                                   | <p>spent during the financial year in accordance with the grant conditions. Thereafter, an equal amount is transferred from the Accumulated Surplus to the Government Grant Reserve (GGR) on the statement of Changes in Net Assets. Annually, an amount is transferred from this reserve to accumulated surplus equal to the amount of depreciation on assets funded from government grants. 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).</p> |                    |                                                                           |
|                              |                                   | <p>3) On the implementation of IAS 20, unbundle the GGR by transferring the balance to a deferred income account.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | CFO                | 30 June 2009                                                              |
|                              |                                   | <p>4) For future depreciation charges in respect of assets that have a carrying amount equal to the deferred income account on the date of the unbundling of the GGR,</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | CFO                | 30 June 2009                                                              |

| Financial reporting standard                  | Extent of exemption from standard | Milestones to be achieved to comply with exemption<br><i>[include the key challenges to be overcome]</i>                                                                                                                                                                                                                                                 | Person responsible | Estimate date of compliance<br><i>[cannot extend beyond 30 June 2008]</i> |
|-----------------------------------------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
|                                               |                                   | ensure that an amount equal to the depreciation charge is transferred from deferred income to the Statement of Financial Performance.                                                                                                                                                                                                                    |                    |                                                                           |
| <b>Construction Contracts (IAS 11/AC 109)</b> | Entire Standard                   | The Municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. Therefore it is considered that the application of IAS 11 by the Municipality will not be necessary, as the Municipality does not enter into transactions accounted for in terms of IAS 11. | N/A                | N/A                                                                       |
| <b>Business Combinations (IFRS 3/AC 140)</b>  | Entire Standard                   | <p>1) The Municipality does not enter into business combination transactions. This standard would at the most be relevant to the Municipality in terms of goodwill, but the Municipality does not have any goodwill it needs to account for.</p> <p>2) No further actions therefore required to implement this standard.</p>                             | N/A                | N/A                                                                       |

**APPENDIX "H"**

**FINANCIAL STATEMENTS OF  
MUNICIPAL ENTITIES**

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

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**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION  
NOT FOR GAIN ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2007**

**DIRECTORS' REPORT**

The directors have pleasure in submitting their report for the Agency, which forms part of the audited financial statements of the Incorporated Association not for gain for the year ended 30 June 2007.

**Establishment**

The Nelson Mandela Bay Municipality (NMBM), with the assistance of the Industrial Development Corporation (IDC), established the Mandela Bay Development Agency (MBDA) to project manage urban regeneration of the inner municipal precinct with a view to promoting economic and tourism development. The geographical area for which the MBDA is responsible includes, *inter alia*, the Central Business District (CBD), Central Hill, the existing harbour, Lower Baakens River Valley and surrounding areas.

**General review**

The Agency has received conditional grants during the year under review from the NMBM and IDC for urban regeneration projects, operational expenses and property, plant and equipment in terms of the budget submitted to them.

**Financial results**

The financial results are set out in the attached annual financial statements.

**Key activities**

During the period of the review, the Agency commenced with the construction of the Govan Mbeki Avenue Environmental Upgrade Project (Phase1). This project entailed the rehabilitation of the main sewer in the avenue, together with the semi-pedestrianisation of the precinct. Upgraded walking areas have been paved with trees, lighting, street furniture, steel structures and informal trading kiosks introduced to create a new shopping mall and tourist destination.

**Directors and Secretary**

The non-executive directors of the company are:

Sakhumzi Justice Macozoma (Chairperson - appointed 11 June 2007)

Sipho Mila Pityana (Chairperson - resigned 08 December 2006 )

Phillip Hugo Gutsche

Mninawe Pepi Silinga

Daniel Alexander Jordaan

Errol Patrick Heynes (resigned 07 February 2007)

Sicelo Nathaniel Fayo (resigned 08 September 2006)

Lulama Monica Prince (appointed 11 June 2007)

Wilhela Magda Gie (appointed 11 June 2007)

Hannah Sadiki (appointed 11 June 2007)

Alfred Da Costa (appointed 11 June 2007)

The secretary is Ashwin Badra Daya whose business and postal addresses are:

**Postal Address:**

Mandela Bay Development Agency  
PO Box 74  
Port Elizabeth  
6000

**Business Address:**

Seventh Floor  
Kwantu Towers  
Govan Mbeki Avenue  
Port Elizabeth  
6000



**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007**

|                                                                 | Notes | 2007<br>R         | 2006<br>R         |
|-----------------------------------------------------------------|-------|-------------------|-------------------|
| <b>NET ASSETS AND LIABILITIES</b>                               |       |                   |                   |
| <b>NET ASSETS</b>                                               |       | 1,944,981         | 1,011,519         |
| Accumulated Surplus                                             |       | 1,286,492         | 402,370           |
| Grants and Public Contributions Reserves                        |       | 658,489           | 609,149           |
| <b>LIABILITIES</b>                                              |       |                   |                   |
| <b>Non Current Liabilities</b>                                  |       |                   |                   |
| Construction Contract Retention Creditors                       | 3     | 632,264           | -                 |
| <b>Current Liabilities</b>                                      |       |                   |                   |
| Trade and Other Payables                                        | 4     | 2,417,526         | 2,379,009         |
| Provisions                                                      | 5     | 318,652           | 126,090           |
| Deferred Income                                                 | 6     | 37,176,184        | 11,224,782        |
| Short-term portion of Construction Contract Retention Creditors | 3     | 63,634            | -                 |
| <b>TOTAL NET ASSETS AND LIABILITIES</b>                         |       | <b>42,553,241</b> | <b>14,741,400</b> |
| <b>ASSETS</b>                                                   |       |                   |                   |
| <b>Non-current Assets</b>                                       |       |                   |                   |
| Property, Plant and Equipment                                   | 7     | 658,489           | 609,149           |
| <b>Current Assets</b>                                           |       |                   |                   |
| Construction (Work in Progress)                                 | 8     | 17,246,984        | 2,777,351         |
| Trade and Other Receivables                                     | 9     | 4,966,071         | 6,625,156         |
| Deposits                                                        | 10    | 5,605             | 4,405             |
| Cash and Cash Equivalents                                       | 11    | 19,676,092        | 4,725,339         |
| <b>TOTAL ASSETS</b>                                             |       | <b>42,553,241</b> | <b>14,741,400</b> |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007**

|                                            |           | ACTUAL            | ACTUAL            | BUDGET            |
|--------------------------------------------|-----------|-------------------|-------------------|-------------------|
|                                            | NOTES     | 2007              | 2006              | 2007              |
|                                            |           | R                 | R                 | R                 |
| <b>REVENUE</b>                             | <b>2</b>  | <b>12,360,946</b> | <b>11,914,425</b> | <b>15,494,135</b> |
| Conditional Grants and Receipts            |           | 9,860,946         | 9,414,425         | 12,994,135        |
| IDC Grants                                 |           | 2,500,000         | 2,500,000         | 2,500,000         |
| <b>OTHER INCOME</b>                        |           |                   |                   |                   |
| Interest Received - external investments   |           | 884,122           | 286,105           | -                 |
| Other Income                               | <b>12</b> | 98,974            | 12,165            | -                 |
| <b>TOTAL REVENUE</b>                       |           | <b>13,344,042</b> | <b>12,212,695</b> | <b>15,494,135</b> |
| <b>EXPENDITURE</b>                         |           | <b>12,398,638</b> | <b>11,862,367</b> | <b>15,494,135</b> |
| Advertising and Media                      |           | 98,684            | 64,599            | 100,000           |
| Audit Fees                                 |           | 104,435           | 18,233            | 148,500           |
| Bank Charges                               |           | 2,027             | 4,523             | 10,000            |
| Cleaning Safety and Security               |           | 3,335             | 3,533             | 6,620             |
| Computer Expenses                          |           | 29,881            | 7,227             | 30,000            |
| Consumables                                |           | 3,120             | 1,452             | 3,500             |
| Course Fees Education and Training         |           | 47,275            | 25,816            | 50,000            |
| Depreciation                               |           | 116,918           | 80,545            | 218,300           |
| Donations and Social Responsibility        |           | 20,672            | 5,950             | 30,000            |
| Electricity, Water and Rates               |           | 52,532            | 30,256            | 86,938            |
| Employee Related Costs                     | <b>13</b> | 3,498,036         | 2,590,786         | 3,519,566         |
| Entertainment                              |           | 54,788            | 21,744            | 55,000            |
| Equipment Lease and Rentals                |           | 5,914             | 4,504             | 6,984             |
| Insurance                                  |           | 33,006            | 22,194            | 40,829            |
| Interest and Penalties                     | <b>14</b> | 47                | 111               | 5,653             |
| IT Support Costs                           |           | 59,859            | 29,662            | 60,728            |
| Legal Fees                                 |           | 511,268           | 442,800           | 614,304           |
| Loss on disposal of non-current asset      |           | 2,499             | 2,958             | -                 |
| Meeting Expenses                           |           | 44,379            | 56,442            | 100,000           |
| Office Decor and Fittings                  |           | 8,196             | 9,756             | 26,885            |
| Postage and Courier                        |           | 6,909             | 2,283             | 7,277             |
| Printing and Stationery                    |           | 23,985            | 21,740            | 26,849            |
| Professional and Consultant Fees           |           | 97,525            | 27,005            | 100,000           |
| Public Relations and Marketing             |           | 392,837           | 334,857           | 450,000           |
| Recruitment Costs                          |           | 7,676             | 34,015            | 34,015            |
| Refreshments                               |           | 7,772             | 5,800             | 10,000            |
| Regional Services Levies                   |           | -                 | 31,030            | -                 |
| Rentals                                    |           | 355,133           | 287,316           | 362,325           |
| Repairs and Maintenance                    |           | 5,499             | 992               | 10,000            |
| Small Assets                               |           | 16,923            | 13,163            | 20,000            |
| Subscriptions                              |           | 20,302            | 14,387            | 30,000            |
| Sundry Expenses                            |           | 5,744             | 4,501             | 7,200             |
| Telephone and Fax                          |           | 96,159            | 75,728            | 96,662            |
| Travel and Accommodation                   |           | 162,521           | 195,581           | 176,000           |
| Statue of Freedom Project                  |           | -                 | 843,982           | -                 |
| Strategic Spatial Implementation Framework |           | -                 | 2,898,870         | 2,400,000         |
| Cleansing Plan Project                     |           | 1,468,348         | 794,514           | 1,490,000         |
| Security Plan Project                      |           | 4,809,434         | 2,838,437         | 4,810,000         |
| Narrow Gauge Feasibility Study             |           | 225,000           | 15,075            | 250,000           |
| CBD Facilities                             |           | -                 | -                 | 100,000           |
| <b>NET SURPLUS FOR THE YEAR</b>            |           | <b>945,404</b>    | <b>350,328</b>    | <b>-</b>          |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2007**

|                                                               | R                                          | R                      | R                   |
|---------------------------------------------------------------|--------------------------------------------|------------------------|---------------------|
|                                                               | Grants and Public<br>Contributions Reserve | Accumulated<br>Surplus | Total<br>Net Assets |
| <b>Balance at 30 June 2005</b>                                | <b>500,549</b>                             | <b>3,632</b>           | <b>504,181</b>      |
| Net Surplus for the year                                      | -                                          | 2,755,545              | 2,755,545           |
| Add back depreciation                                         | (159,987)                                  | 159,987                | -                   |
| Grants used to purchase PPE                                   | 2,922,119                                  | (2,922,119)            | -                   |
| Asset disposal                                                | (2,955)                                    | 2,955                  | -                   |
| <b>Balance as previously stated at 30 June 2006</b>           | <b>3,259,726</b>                           | <b>-</b>               | <b>3,259,726</b>    |
| <b>Adjustments</b>                                            |                                            |                        | -                   |
| Interest Received Previously Accounted for as deferred income |                                            |                        | -                   |
| -2004                                                         | -                                          | 94 696                 | 94,696              |
| -2005                                                         | -                                          | 21 569                 | 21,569              |
| -2006                                                         | -                                          | 286 105                | 286,105             |
| Reversed Grants used to purchase PPE                          | (2,922,119)                                |                        |                     |
| Add back depreciation adjustment 2006                         |                                            | -                      |                     |
| -2005                                                         | 47,332                                     | -                      | 47,332              |
| -2006                                                         | 79,442                                     | -                      | 79,442              |
| Less: Additions to fixed assets                               | 144,768                                    | -                      | 144,768             |
| <b>Restated Balance at 1 July 2006</b>                        | <b>609,149</b>                             | <b>402,370</b>         | <b>1,011,519</b>    |
| Net Surplus for the year                                      | -                                          | 945,404                | 945,404             |
| Add back depreciation                                         | (116,918)                                  | 116,918                | -                   |
| Grants used to purchase PPE                                   | 178,200                                    | (178,200)              | -                   |
| Asset disposal                                                | (11,942)                                   | -                      | (11,942)            |
| <b>Balance at 30 June 2007</b>                                | <b>658,489</b>                             | <b>1,286,492</b>       | <b>1,944,981</b>    |

**NOTE:**

*The adjustments made in the above statement have been brought about by changes to the prior year figures as a result of changes in the accounting policy for Property, Plant and Equipment; Construction and Revenue. Also refer to Note 25.*

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|                                                            | Note      | 2007<br>R                | 2006<br>R                 |
|------------------------------------------------------------|-----------|--------------------------|---------------------------|
| <b><u>CASH FLOW FROM OPERATING ACTIVITIES</u></b>          |           |                          |                           |
| Cash receipts from government and others                   |           | 40,059,129               | 10,077,113                |
| Cash paid to suppliers and employees                       |           | (25,823,025)             | (15,067,664)              |
| <i>Cash (utilised in)/generated from operations</i>        | <b>15</b> | <u>14,236,104</u>        | <u>(4,990,551)</u>        |
| Interest received                                          |           | 884,122                  | 286,105                   |
| Interest paid                                              |           | (47)                     | (111)                     |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                  |           | <b><u>15,120,179</u></b> | <b><u>(4,704,557)</u></b> |
| <b><u>CASH FROM INVESTING ACTIVITIES</u></b>               |           |                          |                           |
| Purchase of property, plant and equipment                  |           | (178,200)                | (144,768)                 |
| Proceeds on disposal of property, plant and equipment      |           | 9,444                    | -                         |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>                  |           | <b><u>(168,756)</u></b>  | <b><u>(144,768)</u></b>   |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENT</b> | <b>16</b> | <b><u>14,951,423</u></b> | <b><u>(4,849,325)</u></b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>  |           | <b>4,725,339</b>         | <b>9,574,664</b>          |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>        |           | <b><u>19,676,762</u></b> | <b><u>4,725,339</u></b>   |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

|                                                             | 2007<br>R         | 2006<br>R         |
|-------------------------------------------------------------|-------------------|-------------------|
| <b>2 REVENUE</b>                                            |                   |                   |
| IDC Grant                                                   | 2,500,000         | 2,500,000         |
| NMBM Grant                                                  | 9,860,946         | 9,414,425         |
|                                                             | <u>12,360,946</u> | <u>11,914,425</u> |
| <b>3 CONSTRUCTION CONTRACT RETENTION CREDITORS</b>          |                   |                   |
| Rand Civils                                                 | 632,264           | -                 |
| Trenchless Technologies                                     | 63,634            | -                 |
|                                                             | 695,898           | -                 |
| Less: Short-term portion transferred to Current Liabilities | (63,634)          | -                 |
|                                                             | <u>632,264</u>    | <u>-</u>          |
| <b>4 TRADE AND OTHER PAYABLES</b>                           |                   |                   |
| Trade Creditors                                             | 1,993,314         | 2,088,725         |
| PAYE                                                        | 56,082            | 45,721            |
| UIF                                                         | 2,391             | 2,204             |
| Audit fees                                                  | 23,000            | 14,014            |
| Staff leave                                                 | 65,400            | 29,003            |
| Legal fees                                                  | 105,000           | -                 |
| Annual Bonuses                                              | 32,376            | 42,688            |
| Accruals                                                    | 139,963           | 156,654           |
|                                                             | <u>2,417,526</u>  | <u>2,379,009</u>  |
| <b>5 PROVISIONS</b>                                         |                   |                   |
| Performance bonuses                                         | 168,645           | 126,090           |
| Narrow Gauge Contract                                       | 150,007           | -                 |
|                                                             | <u>318,652</u>    | <u>126,090</u>    |

**NOTE:**

*The Narrow Gauge contract provision is based on estimated percentage of work completed at financial year-end which formed the basis of the provision calculation.*

**6 DEFERRED INCOME**

|                                                         | 37,176,184        | 11,224,782        |
|---------------------------------------------------------|-------------------|-------------------|
| <b>IDC</b>                                              |                   |                   |
| Opening Balance                                         | -                 | -                 |
| Amount Received                                         | 2,500,000         | 2,500,000         |
| Recognised as Income                                    | (2,500,000)       | (2,500,000)       |
| <b>NMBM</b>                                             | <b>37,176,184</b> | <b>11,224,782</b> |
| <b>Restated balance as at 1 July 2006</b>               | 11,236,730        | 3,949,102         |
| As previously stated, Opening Balance as at 1 July 2006 | 8,849,803         | 4,062,412         |
| Add: Capital expenditure previously expensed            | 3,259,726         | 500,549           |
| Adjust for interest received                            | (872,799)         | (613,859)         |
| Amount Receivable to date                               | 35,800,400        | 16,690,104        |
| Less: Amount recognised as income during the year       | (9,860,946)       | (9,414,424)       |
| Current depreciation recognised as income               | -                 | -                 |
| Expenditure on PPE                                      | (178,200)         | (144,768)         |
| Sundry Income                                           | 98,974            | 12,165            |
| Operating expenses                                      | (9,781,720)       | (9,281,821)       |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)****7 PROPERTY, PLANT AND EQUIPMENT**

|                        |                 | 2007           |                 |                 |                          | 2006           |                 |                 |                |
|------------------------|-----------------|----------------|-----------------|-----------------|--------------------------|----------------|-----------------|-----------------|----------------|
|                        |                 | R              |                 |                 |                          | R              |                 |                 |                |
|                        |                 | Cost           |                 |                 | Accumulated Depreciation |                |                 | Carrying Value  |                |
|                        | Opening Balance | Additions      | Disposal        | Closing Balance | Opening Balance          | Depreciation   | Disposal        | Closing Balance |                |
| Computer Equipment     | 340,432         | 90,835         | (38,970)        | 392,297         | 77,854                   | 61,268         | (31,390)        | 107,732         | 284,565        |
| Computer Software      | 21,783          | 18,741         | -               | 40,524          | 8,467                    | 16,080         | -               | 24,547          | 15,977         |
| Office Equipment       | 34,275          | 12,091         | (4,619)         | 41,747          | 2,231                    | 5,562          | (257)           | 7,536           | 34,211         |
| Furniture and Fittings | 321,272         | 39,341         | -               | 360,613         | 35,988                   | 28,881         | -               | 64,869          | 295,744        |
| Motor Cycles           | 16,053          | -              | -               | 16,053          | 126                      | 3,869          | -               | 3,995           | 12,058         |
| Leasehold Assets       | -               | 17,192         | -               | 17,192          | -                        | 1,258          | -               | 1,258           | 15,934         |
|                        | <b>733,815</b>  | <b>178,200</b> | <b>(43,589)</b> | <b>868,426</b>  | <b>124,666</b>           | <b>116,918</b> | <b>(31,647)</b> | <b>209,937</b>  | <b>658,489</b> |
|                        |                 |                |                 |                 |                          |                |                 |                 | 49,340         |
|                        |                 |                |                 |                 |                          |                | 11,942          | 61,282          | 49,340         |
|                        |                 |                |                 |                 |                          |                |                 |                 | R              |
|                        | Opening Balance | Additions      | Disposal        | Closing Balance | Opening Balance          | Depreciation   | Disposal        | Closing Balance | Carrying Value |
| Computer Equipment     | 309,689         | 30,743         | -               | 340,432         | 27,992                   | 49,863         | -               | 77,855          | 262,577        |
| Computer Software      | 11,283          | 10,500         | -               | 21,783          | 2,825                    | 5,642          | -               | 8,467           | 13,316         |
| Office Equipment       | 13,216          | 24,609         | (3,550)         | 34,275          | 391                      | 2,431          | (592)           | 2,230           | 32,045         |
| Furniture and Fittings | 258,409         | 62,863         | -               | 321,272         | 13,508                   | 22,479         | -               | 35,987          | 285,285        |
| Motor Cycles           | -               | 16,053         | -               | 16,053          | -                        | 127            | -               | 127             | 15,926         |
|                        | <b>592,597</b>  | <b>144,768</b> | <b>(3,550)</b>  | <b>733,815</b>  | <b>44,716</b>            | <b>80,542</b>  | <b>(592)</b>    | <b>124,666</b>  | <b>609,149</b> |
|                        |                 |                |                 |                 |                          | 64,226         | (2,958)         |                 | 108,600        |

**NOTE**

No item of Property, Plant and Equipment has been pledged as security for liabilities.

**8 CONSTRUCTION (Work in progress)**

|                                              | 2007                     | 2006                    |
|----------------------------------------------|--------------------------|-------------------------|
|                                              | R                        | R                       |
| <b>Infrastructure - GMA Upgrade</b>          |                          |                         |
| Balance at beginning of year                 | 2,777,351                | 2,777,351               |
| Additions                                    | 11,714,027               | -                       |
| Balance at end of year                       | <u>14,491,378</u>        | <u>2,777,351</u>        |
| <b>Infrastructure - Sewer Rehabilitation</b> |                          |                         |
| Opening balance                              | -                        | -                       |
| Additions                                    | 2,755,606                | -                       |
| Closing Balance                              | <u>2,755,606</u>         | <u>-</u>                |
| <b>Total</b>                                 | <u><b>17,246,984</b></u> | <u><b>2,777,351</b></u> |

**9 TRADE AND OTHER RECEIVABLES**

|                             | 2007             | 2006             |
|-----------------------------|------------------|------------------|
| NMBM - Projects             | 4,779,141        | 6,613,106        |
| NMBM - Travel Reimbursement | 30,734           | -                |
| VAT Refund                  | 8,522            | -                |
| Payments made in advance    | -                | 12,050           |
| Accrued Interest            | 147,674          | -                |
|                             | <u>4,966,071</u> | <u>6,625,156</u> |

**10 DEPOSITS**

|                           | 2007         | 2006         |
|---------------------------|--------------|--------------|
| Telkom                    | 2,100        | 2,100        |
| Portnet Rental            | 2,000        | 2,000        |
| Africorp Parking Bay      | 1,400        | 200          |
| Salaries' Savings Account | 105          | 105          |
|                           | <u>5,605</u> | <u>4,405</u> |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

|                                                                                          | 2007              | 2006             |
|------------------------------------------------------------------------------------------|-------------------|------------------|
|                                                                                          | R                 | R                |
| <b>11 CASH AND CASH EQUIVALENTS</b>                                                      |                   |                  |
| <i>The municipal entity has the following bank accounts:</i>                             |                   |                  |
| <b>Current Account (Primary Account)</b>                                                 |                   |                  |
| Standard Bank of SA Limited, Rink Street, Port Elizabeth<br>Account Number - 080308503   |                   |                  |
| Cashbook balance at beginning of year                                                    | 102,425           | 1,729,408        |
| Cashbook balance at end of the year                                                      | <u>100,469</u>    | <u>102,425</u>   |
| Bank statement balance at beginning of the year                                          | <u>102,425</u>    | <u>1,938,948</u> |
| Bank statement balance at end of the year                                                | <u>100,469</u>    | <u>102,425</u>   |
| <b>Savings Account</b>                                                                   |                   |                  |
| Standard Bank of SA Limited, Rink Street, Port Elizabeth<br>Account Number - 38368193000 |                   |                  |
| Cashbook balance                                                                         | 101               | 118              |
| Bank statement balance                                                                   | <u>101</u>        | <u>118</u>       |
| <b>Short-term Investments</b>                                                            |                   |                  |
| Standard Bank of SA Limited, Rink Street, Port Elizabeth<br>Account Number - 08846132    |                   |                  |
| <b>Call Account Deposits</b>                                                             |                   |                  |
| Cashbook balance at beginning of year                                                    | 4,622,796         | 7,843,256        |
| Cashbook balance at end of the year                                                      | <u>19,575,522</u> | <u>4,622,796</u> |
| Bank statement balance at beginning of the year                                          | <u>4,622,796</u>  | <u>4,622,796</u> |
| Bank statement balance at end of the year                                                | <u>19,575,522</u> | <u>4,622,796</u> |
| <i>Which are disclosed in the Statement of Financial Position as follows:</i>            |                   |                  |
| Cash and cash equivalents                                                                | 19,676,092        | 4,725,339        |
| Current Account (Primary Account)                                                        | 100,469           | 102,425          |
| Call Account Deposits                                                                    | 19,575,522        | 4,622,796        |
| Savings Account                                                                          | 101               | 118              |
| <b>NOTE:</b>                                                                             |                   |                  |
| <i>All amounts of Cash and Cash Equivalents are available for use by the Agency.</i>     |                   |                  |
| <b>12 OTHER INCOME</b>                                                                   |                   |                  |
| Property Conference Attendance Fees                                                      | 80,991            | -                |
| Request for Proposal Deposits                                                            | 9,211             | 12,165           |
| Sponsorships                                                                             | 8,772             | -                |
|                                                                                          | <u>98,974</u>     | <u>12,165</u>    |
| <b>13 EMPLOYEE RELATED COSTS</b>                                                         |                   |                  |
| Employee related costs - Salaries and Wages                                              | 2,714,086         | 1,972,276        |
| Employee related costs - Social Contributions                                            | 479,927           | 396,420          |
| Car allowances                                                                           | 135,378           | 96,000           |
| Performance bonus provision                                                              | 168,645           | 126,090          |
| <b>Total Employee Related Costs</b>                                                      | <u>3,498,036</u>  | <u>2,590,786</u> |
| <b>Remuneration of the Chief Executive Officer</b>                                       |                   |                  |
| Annual remuneration, including social contributions                                      | 781,351           | 714,691          |
| Car allowance                                                                            | 60,000            | 60,000           |
| Performance bonus provision                                                              | 108,725           | 81,290           |
| <b>Total</b>                                                                             | <u>950,076</u>    | <u>855,981</u>   |
| <b>Remuneration of Chief Financial Officer</b>                                           |                   |                  |
| Annual remuneration, including social contributions                                      | 435,680           | 387,470          |
| Car allowance                                                                            | 28,000            | 36,000           |
| Performance bonus provision                                                              | 59,920            | 44,800           |
| <b>Total</b>                                                                             | <u>523,600</u>    | <u>468,270</u>   |
| <b>Remuneration of Planning and Development Manager</b>                                  |                   |                  |
| Annual remuneration, including social contributions                                      | 350,000           | 29,166           |
| Car allowance                                                                            | 60,000            | 5,000            |
| <b>Total</b>                                                                             | <u>410,000</u>    | <u>34,166</u>    |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

|                                                                                                          | 2007<br>R                          | 2006<br>R                 |
|----------------------------------------------------------------------------------------------------------|------------------------------------|---------------------------|
| <b>14 INTEREST AND PENALTIES</b>                                                                         |                                    |                           |
| Interest on overdraft and late payment of RSC levies                                                     | 47                                 | 111                       |
|                                                                                                          | <u>47</u>                          | <u>111</u>                |
| <b>15 CASH (UTILISED IN)/GENERATED BY OPERATIONS</b>                                                     |                                    |                           |
| Net surplus for the year                                                                                 | 945,404                            | 350,328                   |
| Depreciation                                                                                             | 116,918                            | 80,545                    |
| Investment Income                                                                                        | (884,122)                          | (286,105)                 |
| Interest paid                                                                                            | 47                                 | 111                       |
| Loss on sale of Property Plant and Equipment                                                             | 2,499                              | 2,958                     |
| Operating surplus before working capital changes:                                                        | <u>180,746</u>                     | <u>147,837</u>            |
| Increase/(Decrease) in trade and other payables                                                          | 38,517                             | (520,647)                 |
| Increase in provisions                                                                                   | 192,562                            | 11,394                    |
| Increase in deferred income                                                                              | 25,951,402                         | 4,662,370                 |
| Increase in construction contract retention creditors                                                    | 695,899                            | -                         |
| Increase in construction (work in progress)                                                              | (14,469,633)                       | (2,777,351)               |
| Decrease/(Increase) in trade and other receivables                                                       | 1,806,759                          | (6,625,156)               |
| Increase in deposits paid                                                                                | (1,200)                            | (2,305)                   |
| Adjustments of depreciation                                                                              | -                                  | 116,265                   |
| Disposal of PPE                                                                                          | (11,943)                           | (2,958)                   |
| <i>Cash (utilised in)/generated by operations</i>                                                        | <u><b>14,383,109</b></u>           | <u><b>(4,990,551)</b></u> |
| <b>16 MOVEMENT IN CASH AND CASH EQUIVALENTS</b>                                                          |                                    |                           |
| Balance at the end of the year                                                                           | 19,676,092                         | 4,725,339                 |
| Balance at the beginning of the year                                                                     | <u>4,725,339</u>                   | <u>9,574,664</u>          |
| <i>Net (decrease)/increase in cash and cash equivalents</i>                                              | <u><b>14,950,753</b></u>           | <u><b>(4,849,325)</b></u> |
| <b>17 ADDITIONAL DISCLOSURES IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT</b>                        |                                    |                           |
| <b>17.1 Audit fees</b>                                                                                   |                                    |                           |
| Opening balance                                                                                          | 14,014                             | 50,000                    |
| Current year audit fee                                                                                   | 38,176                             | 14,014                    |
| Amount paid - current year                                                                               | -                                  | -                         |
| Amount paid - previous year                                                                              | (31,273)                           | (54,219)                  |
| Underprovision - previous year                                                                           | 2,083                              | 4,219                     |
| <b>Balance unpaid</b>                                                                                    | <u><b>23,000</b></u>               | <u><b>14,014</b></u>      |
| <b>17.2 PAYE and UIF</b>                                                                                 |                                    |                           |
| Opening balance                                                                                          | 47,925                             | -                         |
| Current year payroll deductions                                                                          | 733,395                            | 554,561                   |
| Amount paid - current year                                                                               | (674,922)                          | (506,636)                 |
| Amount paid - previous year                                                                              | (47,925)                           | -                         |
| <b>Balance unpaid</b>                                                                                    | <u><b>58,473</b></u>               | <u><b>47,925</b></u>      |
| <b>17.3 Performance Bonuses</b>                                                                          |                                    |                           |
| Opening balance                                                                                          | 126,090                            | 114,696                   |
| Amount paid                                                                                              | (153,548)                          | (108,558)                 |
| Under/Overprovision prior year                                                                           | 27,458                             | (6,138)                   |
| Provisions for the year                                                                                  | 168,645                            | 126,090                   |
| <b>Balance unpaid</b>                                                                                    | <u><b>168,645</b></u>              | <u><b>126,090</b></u>     |
| <b>17.4 VALUE ADDED TAX</b>                                                                              |                                    |                           |
| As at 30 June 2007, all VAT returns have been submitted timeously to the South African Revenue Services. |                                    |                           |
| <b>18 RELATED PARTIES</b>                                                                                |                                    |                           |
| <b>18.1 Relations</b>                                                                                    |                                    |                           |
| Parent Municipality                                                                                      | Nelson Mandela Bay Municipality    |                           |
| Funder                                                                                                   | Industrial Development Corporation |                           |
| (see also note 2)                                                                                        |                                    |                           |



**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

|                                                                                                             | 2007      | 2006      |
|-------------------------------------------------------------------------------------------------------------|-----------|-----------|
|                                                                                                             | R         | R         |
| <b>18.2 Related party balances</b>                                                                          |           |           |
| <b>Amounts included in Trade and Other Receivables (Trade and Other Payables) regarding related parties</b> |           |           |
| The Green Room Design Company                                                                               | -         | (165,947) |
| Nelson Mandela Bay Municipality                                                                             | 4,779,141 | 6,612,000 |

**18.3 Related party transactions**  
**General expenses paid to related parties**

|                               |   |         |
|-------------------------------|---|---------|
| The Green Room Design Company | - | 415,529 |
|-------------------------------|---|---------|

The MBDA entered into a contract for services with The Green Room Design Company. A director of the MBDA, Mr S Fayó, was also a director of The Green Room Design Company and the Board of Directors resolved that this did not constitute a conflict of interest. The Accounting Officer subsequently sought guidance from National Treasury on the matter following a government notice issued in terms of Regulation 44 of the Supply Chain Management regulations.

However, in terms of Section 102 of the Act the matter was not promptly notified to the National Treasury, the Auditor General and the parent municipality.

Following the response from National Treasury, corrective action has been taken and The Green Room Design Company contract has been terminated. Mr Fayó has also tendered his resignation from the Board.

**18.4 KEY MANAGEMENT PERSONNEL**

The following are persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly including any director of MBDA:

Chief Executive Officer: Pierre Voges  
 Chief Financial Officer: Ashwin Badra Daya  
 Planning and Development Manager: Daluxolo Mlenzana

Their short-term employee benefits are disclosed in Note 13.

**19 CONTINGENT LIABILITY**

We are not aware of any pending or threatened litigation, proceedings, hearings, claims or negotiations which may result in significant loss to the Development Agency.

**20 CONTINGENT ASSETS**

We are not aware of the existence of any contingent assets at the financial year-end.

**21 IN-KIND DONATIONS**

No in-kind donations and/or assistance was received during the financial year that would require adjustments to the annual financial statements.

**22 POST BALANCE SHEET EVENTS**

We are not aware of the occurrence of any events post balance sheet date that would require adjustments to the annual financial statements.

**23 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE**

No such expenditure was incurred during the period.

**24 OPERATING LEASES**

The following are the total minimum future lease payments

|                             | 0 - 1 year | 1 - 5 years | more than 5 years |
|-----------------------------|------------|-------------|-------------------|
| Office accommodation rental | 396,186    | 547,296     | -                 |
| Warehouse rental            | 3,425      | -           | -                 |
| Office plants               | 6,472      | -           | -                 |

**NOTE:**

*The Agency is the lessee.*

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

|                                              | 2006<br>R                |
|----------------------------------------------|--------------------------|
| <b>25 CHANGES TO COMPARATIVE FIGURES</b>     |                          |
| <b>Net Assets</b>                            |                          |
| <b>Balance per 2006 financial statements</b> | <b>3,259,726</b>         |
| Transfer to construction                     | (2,777,351)              |
| Adjustment to depreciation                   | 126,774                  |
| Reclassification of interest received        | 402,370                  |
| <b>Restated Balance</b>                      | <b><u>1,011,519</u></b>  |
| <b>Trade and other Payables</b>              |                          |
| <b>Balance per 2006 financial statements</b> | <b>1,335,787</b>         |
| Reclassification of VAT                      | 1,000,534                |
| Reclassification of performance bonus        | 85,440                   |
| Adjustment of staff bonuses                  | (42,752)                 |
| <b>Restated Balance</b>                      | <b><u>2,379,009</u></b>  |
| <b>Provisions</b>                            |                          |
| <b>Balance per 2006 financial statements</b> | <b>83,338</b>            |
| Adjustment                                   | 42,752                   |
| <b>Restated Balance</b>                      | <b><u>126,090</u></b>    |
| <b>Deferred income</b>                       |                          |
| <b>Balance per 2006 financial statements</b> | <b>8,849,803</b>         |
| Reclassification of interest received        | (402,370)                |
| Transfer from construction                   | 2,777,349                |
| <b>Restated Balance</b>                      | <b><u>11,224,782</u></b> |
| <b>Property, Plant and Equipment</b>         |                          |
| <b>Balance per 2006 financial statements</b> | <b>3,259,726</b>         |
| Transfer to construction                     | (2,777,351)              |
| Adjustment to depreciation                   | 126,774                  |
| <b>Restated Balance</b>                      | <b><u>609,149</u></b>    |
| <b>Construction (WIP)</b>                    |                          |
| <b>Balance per 2006 financial statements</b> | <b>-</b>                 |
| Reclassification of work in progress         | 2,777,351                |
| <b>Restated Balance</b>                      | <b><u>2,777,351</u></b>  |
| <b>Depreciation</b>                          |                          |
| <b>Balance per 2006 financial statements</b> | <b>159,987</b>           |
| Adjustment to depreciation                   | (79,442)                 |
| <b>Restated Balance</b>                      | <b><u>80,545</u></b>     |

## APPENDIX A

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN****ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2007**

2007

R

|                        | Cost            |                |                 | Closing Balance | Accumulated Depreciation |                |                 | Carrying Value |                 |
|------------------------|-----------------|----------------|-----------------|-----------------|--------------------------|----------------|-----------------|----------------|-----------------|
|                        | Opening Balance | Additions      | Disposal        |                 | Opening Balance          | Depreciation   | Disposal        |                | Closing Balance |
| Computer Equipment     | 340,432         | 90,835         | (38,970)        | 392,297         | 77,854                   | 61,268         | (31,390)        | 107,732        | 284,565         |
| Computer Software      | 21,783          | 18,741         | -               | 40,524          | 8,467                    | 16,080         | -               | 24,547         | 15,977          |
| Office Equipment       | 34,275          | 12,091         | (4,619)         | 41,747          | 2,231                    | 5,562          | (257)           | 7,536          | 34,211          |
| Furniture and Fittings | 321,272         | 39,341         | -               | 360,613         | 35,988                   | 28,881         | -               | 64,869         | 295,744         |
| Motor Cycles           | 16,053          | -              | -               | 16,053          | 126                      | 3,869          | -               | 3,995          | 12,058          |
| Leasehold Assets       | -               | 17,192         | -               | 17,192          | -                        | 1,258          | -               | 1,258          | 15,934          |
|                        | <b>733,815</b>  | <b>178,200</b> | <b>(43,589)</b> | <b>868,426</b>  | <b>124,666</b>           | <b>116,918</b> | <b>(31,647)</b> | <b>209,937</b> | <b>658,489</b>  |

2006

R

|                        | Cost            |                |                | Closing Balance | Accumulated Depreciation |               |              | Carrying Value |                 |
|------------------------|-----------------|----------------|----------------|-----------------|--------------------------|---------------|--------------|----------------|-----------------|
|                        | Opening Balance | Additions      | Disposal       |                 | Opening Balance          | Depreciation  | Disposal     |                | Closing Balance |
| Computer Equipment     | 309,689         | 30,743         | -              | 340,432         | 27,992                   | 49,862        | -            | 77,854         | 262,578         |
| Computer Software      | 11,283          | 10,500         | -              | 21,783          | 2,825                    | 5,642         | -            | 8,467          | 13,316          |
| Office Equipment       | 13,216          | 24,609         | (3,550)        | 34,275          | 391                      | 2,432         | (592)        | 2,231          | 32,044          |
| Furniture and Fittings | 258,409         | 62,863         | -              | 321,272         | 13,508                   | 22,480        | -            | 35,988         | 285,284         |
| Motor Cycles           | -               | 16,053         | -              | 16,053          | -                        | 126           | -            | 126            | 15,927          |
|                        | <b>592,597</b>  | <b>144,768</b> | <b>(3,550)</b> | <b>733,815</b>  | <b>44,716</b>            | <b>80,542</b> | <b>(592)</b> | <b>124,666</b> | <b>609,149</b>  |

## APPENDIX B

## MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAIN

## ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2007

|                                            | <u>2007</u><br><u>ACTUAL</u> | <u>2007</u><br><u>BUDGET</u> | <u>2007</u><br><u>VARIANCE</u> | <u>2007</u><br><u>VARIANCE</u> | <u>Comments</u>                                  |
|--------------------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------------------------|
|                                            | <u>R</u>                     | <u>R</u>                     | <u>R</u>                       | <u>%</u>                       |                                                  |
| <b>REVENUE</b>                             |                              |                              |                                |                                |                                                  |
| Grants                                     | 12,360,946                   | 15,494,135                   | (3,133,189)                    | (20.22)                        |                                                  |
| <b>Total Revenue</b>                       | <b>12,360,946</b>            | <b>15,494,135</b>            | <b>(3,133,189)</b>             | <b>(20.22)</b>                 |                                                  |
| <b>EXPENDITURE</b>                         |                              |                              |                                |                                |                                                  |
| Advertising and Media                      | 98,684                       | 100,000                      | 1,316                          | 1.32                           |                                                  |
| Audit Fees                                 | 104,435                      | 148,500                      | 44,065                         | 29.67                          |                                                  |
| Bank Charges                               | 2,026                        | 10,000                       | 7,974                          | 79.74                          |                                                  |
| Cleaning Safety and Security               | 3,335                        | 6,620                        | 3,285                          | 49.62                          |                                                  |
| Computer Expenses                          | 29,881                       | 30,000                       | 119                            | 0.40                           |                                                  |
| Consumables                                | 3,120                        | 3,500                        | 380                            | 10.86                          |                                                  |
| Course Fees Education and Training         | 47,275                       | 50,000                       | 2,725                          | 5.45                           |                                                  |
| Depreciation                               | 116,918                      | 218,300                      | 101,382                        | 46.44                          |                                                  |
| Donations and Social Responsibility        | 20,672                       | 30,000                       | 9,328                          | 31.09                          |                                                  |
| Electricity, Water and Rates               | 52,532                       | 86,938                       | 34,406                         | 39.58                          |                                                  |
| Employee Related Costs                     | 3,498,036                    | 3,519,566                    | 21,530                         | 0.61                           |                                                  |
| Entertainment                              | 54,788                       | 55,000                       | 212                            | 0.39                           |                                                  |
| Equipment Lease and Rentals                | 5,914                        | 6,984                        | 1,070                          | 15.32                          |                                                  |
| Insurance                                  | 33,006                       | 40,829                       | 7,823                          | 19.16                          |                                                  |
| Interest and Penalties                     | 47                           | 5,653                        | 5,606                          | 99.17                          |                                                  |
| IT Support Costs                           | 59,859                       | 60,728                       | 869                            | 1.43                           |                                                  |
| Legal Fees                                 | 511,268                      | 614,304                      | 103,036                        | 16.77                          |                                                  |
| Loss on disposal of non current asset      | 2,499                        | -                            | (2,499)                        | (100.00)                       |                                                  |
| Meeting Expenses                           | 44,379                       | 100,000                      | 55,621                         | 55.62                          |                                                  |
| Office Decor and Fittings                  | 8,196                        | 26,885                       | 18,689                         | 69.51                          |                                                  |
| Postage and Courier                        | 6,909                        | 7,277                        | 368                            | 5.06                           |                                                  |
| Printing and Stationery                    | 23,985                       | 26,849                       | 2,864                          | 10.67                          |                                                  |
| Professional and Consultant Fees           | 97,525                       | 100,000                      | 2,475                          | 2.48                           |                                                  |
| Public Relations and Marketing             | 392,837                      | 450,000                      | 57,163                         | 12.70                          |                                                  |
| Recruitment Costs                          | 7,676                        | 34,015                       | 26,339                         | 77.43                          |                                                  |
| Refreshments                               | 7,772                        | 10,000                       | 2,228                          | 22.28                          |                                                  |
| Rentals                                    | 355,133                      | 362,325                      | 7,192                          | 1.98                           |                                                  |
| Repairs and Maintenance                    | 5,499                        | 10,000                       | 4,501                          | 45.01                          |                                                  |
| Small Assets                               | 16,923                       | 20,000                       | 3,077                          | 15.39                          |                                                  |
| Subscriptions                              | 20,302                       | 30,000                       | 9,698                          | 32.33                          |                                                  |
| Telephone and Fax                          | 96,159                       | 96,662                       | 503                            | 0.52                           |                                                  |
| Travel and Accommodation                   | 162,521                      | 176,000                      | 13,479                         | 7.66                           |                                                  |
| Strategic Spatial Implementation Framework | -                            | 2,400,000                    | 2,400,000                      | 100.00                         | Funds will be received from the IDC in 2007/8    |
| Cleansing Plan Project                     | 1,468,348                    | 1,490,000                    | 21,652                         | 1.45                           |                                                  |
| Security Plan Project                      | 4,809,435                    | 4,810,000                    | 565                            | 0.01                           |                                                  |
| Narrow Gauge Feasibility Study             | 225,000                      | 250,000                      | 25,000                         | 10.00                          |                                                  |
| CBD Facilities                             | -                            | 100,000                      | 100,000                        | 100.00                         | GMA Phase 1 project will be signed off in 2007/8 |
| <b>Total Expenditure</b>                   | <b>12,398,638</b>            | <b>15,494,135</b>            | <b>3,095,497</b>               | <b>19.98</b>                   |                                                  |

## APPENDIX C

MANDELA BAY DEVELOPMENT AGENCY INCORPORATED ASSOCIATION NOT FOR GAINACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUN 2007

|                        | <b>2007<br/>Actual<br/>Cost<br/>R</b> | <b>2007<br/>Budget<br/>Cost<br/>R</b> | <b>Variance<br/>R</b> | <b>Variance<br/>%</b> | <b>Comments</b> |
|------------------------|---------------------------------------|---------------------------------------|-----------------------|-----------------------|-----------------|
| Computer Equipment     | 90,835                                | 100,000.00                            | 9,165                 | 9.17                  |                 |
| Computer Software      | 18,741                                | 30,000.00                             | 11,259                | 37.53                 |                 |
| Office Equipment       | 12,091                                | 25,000.00                             | 12,909                | 51.64                 |                 |
| Furniture and Fittings | 39,341                                | 57,000.00                             | 17,659                | 30.98                 |                 |
| Leasehold Asset        | 17,192                                | 18,000.00                             | 808                   | 4.49                  |                 |
| Motor Cycles           | -                                     | -                                     | -                     | -                     |                 |
|                        |                                       |                                       |                       |                       |                 |
| <b>Totals</b>          | <b>178,200</b>                        | <b>230,000</b>                        | <b>51,800</b>         | <b>22.52</b>          |                 |

**MANDELA BAY DEVELOPMENT AGENCY INCORPORATED  
ASSOCIATION NOT FOR GAIN NOTES TO THE ANNUAL FINANCIAL  
STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**1 ACCOUNTING POLICIES**

**1.1 REPORTING ENTITY**

Mandela Bay Development Agency (MBDA) is a municipal entity (registered Section 21 company) with the Nelson Mandela Bay Municipality (NMBM) as its parent municipality. The MBDA's registered address is The City Hall, Port Elizabeth. The MBDA is situated in the Nelson Mandela Bay Municipality of the Eastern Cape Province. The Agency has been established by the NMBM with the assistance of the Industrial Development Corporation to project manage urban regeneration of the inner municipal precinct with a view to promoting economic and tourism development.

**1.2 BASIS FOR PRESENTATION**

**1.2.1 Statement of Compliance**

The annual financial statements have been prepared in accordance and compliance 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.

The standards are summarised as follows:

|         |                                                                          |
|---------|--------------------------------------------------------------------------|
| GRAP 1  | Presentation of Financial Statements                                     |
| GRAP 2  | Cash Flow Statements                                                     |
| GRAP 3  | Accounting Policies, Changes in Accounting Estimates and Errors          |
| GAMAP 4 | The Effects of Changes in Foreign Exchange Rates                         |
| GAMAP 6 | Consolidated financial statements and accounting for controlled entities |
| GAMAP 7 | Accounting for Investments in Associates                                 |
| GAMAP 8 | Financial Reporting of Interests in Joint Ventures                       |

|          |                                                          |
|----------|----------------------------------------------------------|
| GAMAP 9  | Revenue                                                  |
| GAMAP 12 | Inventories                                              |
| GAMAP 17 | Property, Plant and Equipment                            |
| GAMAP 19 | Provisions, Contingent Liabilities and Contingent Assets |

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with Paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP), including any interpretations of such statements issued by the Accounting Practices Board.

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

#### 1.2.2 Basis of measurement

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention and/or fair value.

#### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Notes 5; 19 and 20 – provisions and contingencies

### **1.3 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand.

### **1.4 GOING CONCERN ASSUMPTION**

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

### **1.5 PROPERTY, PLANT AND EQUIPMENT**

#### **1.5.1 Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.**

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

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 cost, its fair value was measured at the carrying amount of the asset given up.

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

Depreciation is calculated on cost less residual value, using the straight-line method over the estimated useful lives of the assets. A review of all assets was undertaken during the financial year, and the useful lives and residual values, where applicable, were adjusted for. The annual depreciation rates are based on the following estimated asset lives:



| <b>Assets</b>            | <b>Useful life in<br/>Years</b> |
|--------------------------|---------------------------------|
| - Computer Equipment     | 5                               |
| - Computer Software      | 2                               |
| - Office Equipment       | 6                               |
| - Furniture and Fittings | 10                              |
| - Motor Cycle            | 5                               |
| - Leasehold Assets       | 3                               |

### 1.5.2 **Small Assets**

Assets under R2 000 in value, are expensed immediately against Small Assets in the Statement of Financial Performance.

### 1.5.3 **Leasehold Assets**

Leasehold Assets, are stated at cost, less accumulated depreciation and accumulated impairment losses.

Where items of leasehold assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

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

Depreciation is calculated on cost less residual value, using the straight-line method over the estimated useful lives of the assets.

## 1.6 **CONSTRUCTION (Work in progress)**

The Agency received grant funding from its parent municipality to undertake certain infrastructure development projects. It accounts for costs incurred on construction contracts (work in progress) to the extent of the percentage of the completion of the contract, which construction is certified as being complete by the consulting engineer.

No profits and losses are recognised as these are municipal assets that will be transferred to the parent municipality upon completion.

## **1.7 CONSTRUCTION CONTRACT RETENTION CREDITORS**

Construction contract retention creditors are reflected as short-term creditors where the amount is due within twelve months from the reporting date, and as long-term creditors where the amount payable is due later than twelve months from reporting date.

## **1.8 FINANCIAL INSTRUMENTS**

### **Initial recognition**

The Agency 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 arrangements. Financial assets and financial liabilities are recognised on the Agency's Statement of Financial Position when the Agency becomes party to the contractual provisions to the instrument.

### **1.8.1 Trade and Other Receivables**

Trade and Other Receivable are measured at carrying amount as the carrying amount is a reasonable approximation of fair value. Amounts that are receivable within twelve months from the reporting date are classified as short term.

### **1.8.2 Trade and Other Payables**

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

Trade and Other Payables of the Agency are recognised on the Statements of Financial Position at carrying value as they are paid within 30 days.

### **1.8.3 Cash and Cash equivalents**

Cash includes cash on hand and with banks. Cash equivalents are short-term, 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 purpose of the Cash Flow Statement, cash and cash equivalents comprise of cash on hand and deposits held on call accounts with banks.

## **1.9 PROVISIONS**

A provision is recognised when the Agency has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

### **1.9.1 Performance Bonus**

Where performance appraisals have not yet been performed at year-end, a performance bonus provision is made based on the employment contract stipulations, as well as previous performance bonus payments.

## **1.10 REVENUE RECOGNITION**

### **1.10.1 Revenue from Exchange Transactions**

Interest is recognised on a time proportion basis.

Revenue from grants and public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where grants and public contributions have been received but the Agency has not met the condition, a liability is recognised.

### **1.10.2 Revenue from non-exchange transactions**

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

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

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.

#### **1.11 CONDITIONAL GRANTS**

Revenue received from conditional grants and public contributions is recognised as revenue to the extent that the Agency 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. There are no further restrictions attached to these grants and public contributions.

#### **1.12 VALUE ADDED TAX**

The Agency accounts for Value Added Tax on the invoice basis.

#### **1.13 RESERVES**

##### **Grants and Public Contributions Reserve**

When items of property, plant and equipment are financed from grants and public contributions, a transfer is made from the accumulated surplus/(deficit) to the Grants and Public Contributions Reserve equal to the grants and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Grants and Public Contributions Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

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

#### **1.14 DEFERRED INCOME**

Unutilised grants are reflected on the Statement of Financial Position as a current liability – Deferred Income. They represent unspent conditional grants and public sector contributions. The cash received is invested until it is utilised.

#### **1.15 COMPARATIVE INFORMATION**

##### *1.15.1 Current year comparatives:*

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

##### *1.15.2 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.

#### **1.16 TAXATION**

The Agency has been granted income tax exemption status by South African Revenue Services.

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**ANNUAL FINANCIAL STATEMENTS**

**AT 30 JUNE 2007**

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DIRECTORS</b>                   | Mr J Saffier (Resignation pending)<br>Mr J J Fritz (Resignation pending)<br>Ms B Godolozzi (Deceased)<br>Mr M E Kollito (Deceased)<br>Mr M L Mangcotywa (Resignation pending)<br>Mr B Ngoqo (Resignation pending)<br>Mr T H Ngcolomba (Deceased)<br>Adv J G Richards ( Appointment pending)<br>Mr D Christian ( Appointment pending)<br>Ms L Vermaak ( Appointment pending )<br>Mr P Van Rooy ( Appointment pending) |
| <b>NATURE OF BUSINESS</b>          | The hiring out of the Feather Market Centre for concerts, conferences, exhibitions and related events and catering for these events.                                                                                                                                                                                                                                                                                 |
| <b>BANKERS</b>                     | Standard Bank of South Africa Limited                                                                                                                                                                                                                                                                                                                                                                                |
| <b>AUDITORS</b>                    | Ernst & Young                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>DOMICILE</b>                    | Feather Market Centre<br>Baakens Street<br>Central<br>PORT ELIZABETH                                                                                                                                                                                                                                                                                                                                                 |
| <b>LEGAL FORM AND JURISDICTION</b> | Feather Market Promotions is a company incorporated under Section 21 of the Companies Act, No. 61 of 1973. The company operations are based in Port Elizabeth.                                                                                                                                                                                                                                                       |
| <b>REGISTERED OFFICE</b>           | 5 Summerset Street<br>Central<br>PORT ELIZABETH<br>SOUTH AFRICA<br>6001<br><br>P O Box 12512<br>CENTRAHIL<br>SOUTH AFRICA<br>6006                                                                                                                                                                                                                                                                                    |

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The Directors are responsible of the preparation of the Annual Financial Statements as are set out on pages 2 to 23, in terms S126(1) of the Municipal Finance Management Act. The Annual Financial Statements were approved by the Board of Directors on 31 August 2007 and are signed as such by:

\_\_\_\_\_  
**CHIEF EXECUTIVE OFFICER**

\_\_\_\_\_  
**DIRECTOR**

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007**

|                                         | Note | 2007<br>R        | 2006<br>R         |
|-----------------------------------------|------|------------------|-------------------|
| <b>NET ASSETS AND LIABILITIES</b>       |      |                  |                   |
| <b>Net assets</b>                       |      | <b>9 595 599</b> | <b>9 837 978</b>  |
| Accumulated surplus                     |      | 9 595 599        | 9 837 978         |
| <b>Current liabilities</b>              |      | <b>295 514</b>   | <b>261 464</b>    |
| Trade and other payables                | 1    | 211 554          | 235 991           |
| VAT                                     | 2    | 55 404           | -                 |
| Bank overdraft                          | 9    | 28 556           | 25 473            |
| <b>Total Net Assets and Liabilities</b> |      | <b>9 891 113</b> | <b>10 099 442</b> |
| <b>ASSETS</b>                           |      |                  |                   |
| <b>Non-current assets</b>               |      | <b>8 452 018</b> | <b>9 242 177</b>  |
| Property, plant and equipment           | 3    | 216 972          | 258 490           |
| Improvements to leasehold property      | 4    | 8 235 046        | 8 983 687         |
| <b>Current assets</b>                   |      | <b>1 439 095</b> | <b>857 265</b>    |
| Inventory                               | 5    | 108 496          | 77 671            |
| Trade and other receivables             | 6    | 219 447          | 168 681           |
| Other receivables                       | 7    | 6 500            | 6 500             |
| VAT                                     | 2    | -                | 59 743            |
| Cash and cash equivalents               | 9    | 1 104 652        | 544 670           |
| <b>Total Assets</b>                     |      | <b>9 891 113</b> | <b>10 099 442</b> |

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007**

|                                       | Note | 2007<br>R         | 2006<br>R         |
|---------------------------------------|------|-------------------|-------------------|
| <b>REVENUE</b>                        |      |                   |                   |
| Sales (bar and catering)              | 8    | 4 667 477         | 3 560 400         |
| Rental of facilities and equipment    |      | 1 096 764         | 849 320           |
| Interest earned                       |      | 98 861            | 45 508            |
| Government grants                     | 10   | 1 055 724         | 996 940           |
| Other income                          | 11   | 293 870           | 569 319           |
| <b>Total Revenue</b>                  |      | <b>7 212 696</b>  | <b>6 021 487</b>  |
| <b>EXPENDITURE</b>                    |      |                   |                   |
| Cost of sales                         | 12   | 2 492 567         | 2 067 848         |
| Administration expenses               | 13   | 103 415           | 52 559            |
| Selling and distribution expenses     | 14   | 350 044           | 145 272           |
| Employee related costs                | 15   | 2 006 153         | 1 552 072         |
| Bad debts                             |      | 56                | ( 9 069)          |
| Depreciation - leasehold property     |      | 748 641           | 748 641           |
| Depreciation - other                  |      | 111 533           | 87 275            |
| Repairs and maintenance               | 16   | 230 039           | 186 396           |
| Bank charges                          |      | 24 153            | 23 765            |
| Interest paid                         | 17   | 490               | -                 |
| Legal fees                            |      | 14 067            | -                 |
| Levies                                |      | 5 643             | ( 4 841)          |
| Contracted services                   | 18   | 281 530           | 242 847           |
| General expenses                      | 19   | 1 086 744         | 1 029 598         |
| <b>Total Expenditure</b>              |      | <b>7 455 075</b>  | <b>6 122 363</b>  |
| <b>SURPLUS (DEFICIT) FOR THE YEAR</b> |      | <b>( 242 379)</b> | <b>( 100 876)</b> |



**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE :**

|                                | Accumulated<br>surplus / deficit<br>R | Total<br>R       |
|--------------------------------|---------------------------------------|------------------|
| <b>2006</b>                    |                                       |                  |
| Balance at 1 July 2005         | 9 938 854                             | 9 938 854        |
| Surplus/(Deficit) for the year | ( 100 876)                            | ( 100 876)       |
| <b>Balance at 30 JUNE 2006</b> | <b>9 837 978</b>                      | <b>9 837 978</b> |
| <b>2007</b>                    |                                       |                  |
| Surplus/(Deficit) for the year | ( 242 379)                            | ( 242 379)       |
| <b>Balance at 30 JUNE 2007</b> | <b>9 595 599</b>                      | <b>9 595 599</b> |

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|                                                        | Note | 2007<br>R        | 2006<br>R      |
|--------------------------------------------------------|------|------------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>            |      |                  |                |
| Cash receipts from customers                           |      | 7 263 462        | 4 362 370      |
| Cash paid to suppliers and employees                   |      | (7 790 643)      | (4 882 736)    |
| Cash utilised by operations                            | 19   | ( 527 181)       | ( 520 366)     |
| Interest received                                      |      | 98 861           | 45 508         |
| Interest paid                                          |      | ( 490)           | -              |
| Grants received                                        |      | 1 055 724        | 996 940        |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>       |      | <b>626 914</b>   | <b>522 082</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>            |      |                  |                |
| Purchase of property, plant and equipment              |      | ( 70 015)        | -              |
| Proceeds on disposal of property, plant and equipment  |      | -                | -              |
| <b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>      |      | <b>( 70 015)</b> | <b>-</b>       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>       |      | <b>556 899</b>   | <b>522 082</b> |
| Cash and cash equivalents at the beginning of the year |      | 519 197          | ( 2 885)       |
| Cash and cash equivalents at the end of the year       | 20   | <b>1 076 096</b> | <b>519 197</b> |

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**1. BASIS OF PRESENTATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention:

In accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the entity has adopted Standards of GAMAP and GRAP issued by the Accounting Standards Board during the financial year. The entity previously applied South African Statements of Generally Accepted Accounting Practice, except for GAMAP 17 "Property, plant and equipment". Please refer to Note 22 for further explanation. These statements are not fundamentally different to GRAP and GAMAP statements. There has been no material effect of the change in accounting policies arising from the implementation of GRAP and GAMAP.

The entity may have transactions, events or balances that are outside the ambit of GRAP and GAMAP, but which are included in South African Statements of Generally Accepted Accounting Practice.

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.

**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.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

#### **4.1 PROPERTY, PLANT AND EQUIPMENT**

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

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:

- Furniture and fittings (6 years)
- Office equipment (3 years)
- Motor vehicles (5 years)
- Computer software (2 years)
- Computer equipment (3 years)
- Audio visual equipment (3 years)

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.

#### **4.2 IMPROVEMENTS TO LEASEHOLD PROPERTY**

Improvement to leasehold property is reflected at cost to the company, less accumulated depreciation. The leasehold improvements are depreciated over 25 years using the straight-line basis.

#### **5. INVENTORY**

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any costs necessary to make the sale.

#### **6. FINANCIAL INSTRUMENTS**

Financial instruments recognised in the balance sheet include trade receivables, other receivables, trade payables and cash and cash equivalents.

Financial instruments are initially measured at fair value at trade date, plus directly attributable transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

**6. FINANCIAL INSTRUMENTS (Continued)**

**Cash and cash equivalents**

Cash and cash equivalents are measured at fair value.

Cash in the balance sheet comprises cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Trade and other receivables**

Trade and other receivables are recognised and carried at original invoice amount less an allowance of any uncollectible amounts. Provision is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at cost.

**Trade and other payables**

Liabilities for trade and other amounts payable, which are normally settled on 7 - 30 day terms, are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

**Derecognition of financial instruments**

The derecognition of a financial instrument takes place when the company no longer controls the contractual rights that comprise the financial instrument, which is normally when all the cash flows attributable to the instrument are passed through to a third party.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

**7. REVENUE RECOGNITION**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Revenue from the hiring out of facilities for functions is recognised once the function has taken place.

Interest is recognised on a time proportion basis.

**8. GOVERNMENT GRANTS**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

**9. RETIREMENT BENEFITS**

The entity provides retirement benefits for its employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable.

**10. OPERATING LEASES**

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rentals are recognised on a straight line basis over the lease term or any other basis which is representative of the time pattern of the lessees benefit.

**11. BORROWING COSTS**

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

**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.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

**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.

**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**

**15.1 Current year comparatives:**

Budgeted amounts have been included in Appendix D(1) - D(2).

**15.2 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.

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

|                                    | <b>2007</b>    | <b>2006</b>    |
|------------------------------------|----------------|----------------|
|                                    | <b>R</b>       | <b>R</b>       |
| <b>1. TRADE AND OTHER PAYABLES</b> |                |                |
| Trade creditors                    | 95 977         | 106 985        |
| Payments received in advance       | 30 742         | 78 740         |
| Staff leave                        | 84 835         | 50 266         |
|                                    | <u>211 554</u> | <u>235 991</u> |
| <b>Total creditors</b>             | <b>211 554</b> | <b>235 991</b> |
| <b>2. VAT</b>                      |                |                |
| VAT payable                        | 55 404         | -              |
| VAT refund                         | -              | 59 743         |

VAT is payable on the receipts basis. Only once payment is received from debtors, is VAT paid over to SARS.

**3. PROPERTY, PLANT AND EQUIPMENT**

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

(Cont/...)



FEATHER MARKET PROMOTIONS  
Trading as FEATHER MARKET CENTRE  
(ASSOCIATION INCORPORATED UNDER SECTION 21)  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)

## 3. PROPERTY, PLANT AND EQUIPMENT (Continued)

2007

|                          | Furniture and fittings |  | Office equipment |  | Motor vehicles |  | Computer software |  | Computer equipment |  | Audio visual equipment |   | Total     |   |
|--------------------------|------------------------|--|------------------|--|----------------|--|-------------------|--|--------------------|--|------------------------|---|-----------|---|
|                          | R                      |  | R                |  | R              |  |                   |  |                    |  |                        | R |           | R |
| Carrying Value           | 58 675                 |  | 37 818           |  | 160 452        |  | -                 |  | 1 017              |  | 528                    |   | 258 490   |   |
| Cost                     | 263 771                |  | 241 223          |  | 383 102        |  | 10 928            |  | 66 762             |  | 3 151                  |   | 968 937   |   |
| Correction of error      | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |   | -         |   |
| Accumulated Depreciation | (205 096)              |  | (203 405)        |  | (222 650)      |  | (10 928)          |  | (65 745)           |  | (2 623)                |   | (710 447) |   |
| Additions                | 43 145                 |  | 26 870           |  | -              |  | -                 |  | -                  |  | -                      |   | 70 015    |   |
| Depreciation             | (26 299)               |  | (34 319)         |  | (49 370)       |  | -                 |  | (1 017)            |  | (528)                  |   | (111 533) |   |
| Disposals                | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |   | -         |   |
| Cost                     | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |   | -         |   |
| Accumulated Depreciation | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |   | -         |   |
| Carrying Value           | 75 521                 |  | 30 369           |  | 111 082        |  | -                 |  | -                  |  | -                      |   | 216 972   |   |
| Cost                     | 306 916                |  | 268 093          |  | 383 102        |  | 10 928            |  | 66 762             |  | 3 151                  |   | 1 038 952 |   |
| Accumulated Depreciation | (231 395)              |  | (237 724)        |  | (272 020)      |  | (10 928)          |  | (66 762)           |  | (3 151)                |   | (821 980) |   |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

**3. PROPERTY, PLANT AND EQUIPMENT (Continued)**

2006

|                            | Furniture and fittings |  | Office equipment |  | Motor vehicles |  | Computer software |  | Computer equipment |  | Audio visual equipment |  | Total      |  |
|----------------------------|------------------------|--|------------------|--|----------------|--|-------------------|--|--------------------|--|------------------------|--|------------|--|
|                            | R                      |  | R                |  | R              |  |                   |  |                    |  |                        |  | R          |  |
| Carrying Value             | 79 117                 |  | 52 539           |  | 209 822        |  | -                 |  | 2 710              |  | 1 577                  |  | 345 765    |  |
| Cost                       | 263 771                |  | 241 223          |  | 383 102        |  | 10 928            |  | 66 762             |  | 3 151                  |  | 968 937    |  |
| Correction of error        | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |  | -          |  |
| Accumulated Depreciation   | ( 184 654)             |  | ( 188 684)       |  | ( 173 280)     |  | ( 10 928)         |  | ( 64 052)          |  | ( 1 574)               |  | ( 623 172) |  |
| Capital Under Construction | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |  | -          |  |
| Depreciation               | ( 20 442)              |  | ( 14 721)        |  | ( 49 370)      |  | -                 |  | ( 1 693)           |  | ( 1 049)               |  | ( 87 275)  |  |
| Disposals                  | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |  | -          |  |
| Cost                       | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |  | -          |  |
| Accumulated Depreciation   | -                      |  | -                |  | -              |  | -                 |  | -                  |  | -                      |  | -          |  |
| Carrying Value             | 58 675                 |  | 37 818           |  | 160 452        |  | -                 |  | 1 017              |  | 528                    |  | 258 490    |  |
| Cost                       | 263 771                |  | 241 223          |  | 383 102        |  | 10 928            |  | 66 762             |  | 3 151                  |  | 968 937    |  |
| Accumulated Depreciation   | ( 205 096)             |  | ( 203 405)       |  | ( 222 650)     |  | ( 10 928)         |  | ( 65 745)          |  | ( 2 623)               |  | ( 710 447) |  |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                        | 2007<br>R        | 2006<br>R        |
|--------------------------------------------------------|------------------|------------------|
| <b>4. IMPROVEMENTS TO LEASEHOLD PROPERTY</b>           |                  |                  |
| Cost                                                   | 18 716 018       | 18 716 018       |
| Accumulated depreciation                               | (10 480 972)     | (9 732 331)      |
| Net book value                                         | <u>8 235 046</u> | <u>8 983 687</u> |
| Reconciled as follows:                                 |                  |                  |
| Net book value at beginning of year                    | 8 983 687        | 9 732 328        |
| Depreciation                                           | ( 748 641)       | ( 748 641)       |
| Net book value at end of the year                      | <u>8 235 046</u> | <u>8 983 687</u> |
| <b>5. INVENTORY</b>                                    |                  |                  |
| Bar inventories                                        | <u>108 496</u>   | <u>77 671</u>    |
| <b>6. TRADE AND OTHER RECEIVABLES</b>                  |                  |                  |
| Sales                                                  | 221 962          | 171 140          |
| Provision for bad debts                                | ( 2 515)         | ( 2 459)         |
| <b>Total debtors</b>                                   | <u>219 447</u>   | <u>168 681</u>   |
| <b><i>Reconciliation of the bad debt provision</i></b> |                  |                  |
| Balance at beginning of the year                       | ( 2 459)         | ( 11 528)        |
| Contribution to the provision                          | ( 56)            | -                |
| Write-off of bad debts                                 | -                | 9 069            |
| Balance at end of the year                             | <u>( 2 515)</u>  | <u>( 2 459)</u>  |
| <b>7. OTHER DEBTORS</b>                                |                  |                  |
| Electricity deposits                                   | -                | 6 500            |
| <b>Total other debtors</b>                             | <u>-</u>         | <u>6 500</u>     |
| <b>8. SALES</b>                                        |                  |                  |
| Bar                                                    | 735 296          | 563 467          |
| Catering                                               | 3 932 181        | 2 996 933        |
| <b>Total sales</b>                                     | <u>4 667 477</u> | <u>3 560 400</u> |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                       | <b>2007</b>      | <b>2006</b>      |
|-------------------------------------------------------|------------------|------------------|
|                                                       | <b>R</b>         | <b>R</b>         |
| <b>9. CASH AND CASH EQUIVALENTS</b>                   |                  |                  |
| The entity has the following bank accounts:           |                  |                  |
| <b><u>Current Account (Primary Bank Account)</u></b>  |                  |                  |
| Standard Bank of South Africa Limited                 |                  |                  |
| Account Number 080140114                              |                  |                  |
| Cash book balance at beginning of year -<br>overdrawn | <u>( 25 473)</u> | <u>( 16 701)</u> |
| Cash book balance at end of year - overdrawn          | <u>( 28 556)</u> | <u>( 25 473)</u> |
| Bank statement balance at beginning of year:          | <u>84 696</u>    | <u>15 485</u>    |
| Bank statement balance at end of year                 | <u>83 649</u>    | <u>84 696</u>    |
| <b><u>Money Market Account</u></b>                    |                  |                  |
| Standard Bank of South Africa Limited                 |                  |                  |
| Account Number 084993359                              |                  |                  |
| Cash book balance at beginning of year                | <u>526 951</u>   | <u>3 796</u>     |
| Cash book balance at end of year                      | <u>345 872</u>   | <u>526 951</u>   |
| Bank statement balance at beginning of year:          | <u>526 951</u>   | <u>3 796</u>     |
| Bank statement balance at end of year                 | <u>345 872</u>   | <u>526 951</u>   |
| <b><u>Call Account</u></b>                            |                  |                  |
| Cash book balance at beginning of year                | <u>8 939</u>     | <u>1 240</u>     |
| Cash book balance at end of year                      | <u>-</u>         | <u>8 939</u>     |
| Bank statement balance at beginning of year:          | <u>8 939</u>     | <u>1 240</u>     |
| Bank statement balance at end of year                 | <u>-</u>         | <u>8 939</u>     |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                                      | 2007<br>R        | 2006<br>R      |
|----------------------------------------------------------------------|------------------|----------------|
| <b>9. CASH AND CASH EQUIVALENTS</b>                                  |                  |                |
| <b><u>Fixed Deposit</u></b>                                          |                  |                |
| Standard Bank of South Africa Limited<br>Account Number 088429725001 |                  |                |
| Cash book balance at beginning of year                               | -                | -              |
| Cash book balance at end of year                                     | 750 000          | -              |
| Bank statement balance at beginning of year:                         | -                | -              |
| Bank statement balance at end of year                                | 750 000          | -              |
| <b><u>Petty cash and cash floats</u></b>                             |                  |                |
| Cash book balances at beginning of year                              | 8 780            | 8 780          |
| Cash book balances at end of year                                    | 8 780            | 8 780          |
| <b>Total bank, cash and overdraft balances</b>                       | <b>1 076 096</b> | <b>519 197</b> |
| <b>10. GOVERNMENT GRANTS</b>                                         |                  |                |
| Total government grants                                              | <b>1 055 724</b> | <b>996 940</b> |

Grants are received from the Nelson Mandela Bay Metropolitan Municipality to cover operating deficits of the entity. The conditions of the grant have been met. No funds have been withheld.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                                               | 2007<br>R               | 2006<br>R               |
|-------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>11. OTHER INCOME</b>                                                       |                         |                         |
| Management fee                                                                | 4 008                   | -                       |
| Sundry income                                                                 | 289 862                 | 550 081                 |
| VAT refund received                                                           | -                       | 19 238                  |
| <b>Total other income</b>                                                     | <u><u>293 870</u></u>   | <u><u>569 319</u></u>   |
| <b>12. COST OF SALES</b>                                                      |                         |                         |
| Opening inventory                                                             | 77 671                  | 62 101                  |
| Purchases                                                                     | <u>2 523 392</u>        | <u>2 083 418</u>        |
|                                                                               | 2 601 063               | 2 145 519               |
| Closing inventory                                                             | <u>( 108 496)</u>       | <u>( 77 671)</u>        |
| <b>Total cost of sales</b>                                                    | <u><u>2 492 567</u></u> | <u><u>2 067 848</u></u> |
| <b>13. ADMINISTRATION EXPENSES</b>                                            |                         |                         |
| Accounting fees                                                               | 36 720                  | 31 180                  |
| Auditing fees                                                                 | 66 695                  | 21 379                  |
| <b>Total administration expenses</b>                                          | <u><u>103 415</u></u>   | <u><u>52 559</u></u>    |
| <b>14. SELLING AND DISTRIBUTION EXPENSES</b>                                  |                         |                         |
| Commission on bookings                                                        | 195 762                 | 58 280                  |
| Conferences and visits                                                        | 34 867                  | 13 936                  |
| Marketing                                                                     | 99 511                  | 58 833                  |
| Subscriptions                                                                 | 19 904                  | 14 223                  |
| <b>Total selling and distribution expenses</b>                                | <u><u>350 044</u></u>   | <u><u>145 272</u></u>   |
| <b>15. EMPLOYEE RELATED COSTS</b>                                             |                         |                         |
| Employee related costs - salaries and wages                                   | 1 450 275               | 1 108 477               |
| Employee related costs - contributions to UIF, WCA, pensions and medical aids | 205 214                 | 180 455                 |
| Housing benefits and allowances                                               | 62 922                  | 49 766                  |
| Overtime payments                                                             | 177 186                 | 127 158                 |
| Bonuses (annual and incentive)                                                | 110 241                 | 86 026                  |
| Other                                                                         | 315                     | 190                     |
| <b>Total employee related costs</b>                                           | <u><u>2 006 153</u></u> | <u><u>1 552 072</u></u> |

There were no advances to employees.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                      | 2007             | 2006             |
|--------------------------------------|------------------|------------------|
|                                      | R                | R                |
| <b>16. REPAIRS AND MAINTENANCE</b>   |                  |                  |
| Building - internal                  | 102 504          | 32 017           |
| Computer equipment                   | 482              | -                |
| Equipment                            | 67 938           | 85 436           |
| Maintenance agreements               | 38 773           | 51 992           |
| Organ maintenance                    | 16 453           | 15 373           |
| Vehicles                             | 3 889            | 1 578            |
| <b>Total repairs and maintenance</b> | <b>230 039</b>   | <b>186 396</b>   |
| <b>17. INTEREST PAID</b>             |                  |                  |
| Interest paid                        | 490              | -                |
| <b>Total interest paid</b>           | <b>490</b>       | <b>-</b>         |
| <b>18. CONTRACTED SERVICES</b>       |                  |                  |
| Cleaning                             | 152 171          | 126 346          |
| Security                             | 129 359          | 116 501          |
| <b>Total contracted services</b>     | <b>281 530</b>   | <b>242 847</b>   |
| <b>19. GENERAL EXPENSES</b>          |                  |                  |
| Cleaning materials                   | 13 284           | 4 481            |
| Computer consumables                 | 12 128           | 16 611           |
| Curator                              | -                | 88               |
| Electricity and water                | 272 918          | 269 507          |
| Equipment hire                       | 89 391           | 156 275          |
| Expendable equipment                 | 29 374           | 68 152           |
| Equipment consumables                | 43 732           | 9 028            |
| Laundry                              | 42 687           | 22 178           |
| Licences                             | 839              | 126              |
| Locomotion casual                    | 17 191           | 15 174           |
| Motor vehicle                        | 22 179           | 19 850           |
| Parking rental                       | 22 308           | 17 871           |
| Postage, telephone and fax           | 146 111          | 126 927          |
| Refuse                               | 38 990           | 31 995           |
| Sewerage                             | 20 470           | 13 935           |
| Staff meals                          | 21 078           | 13 451           |
| Stationery                           | 41 649           | 77 394           |
| Training and development of staff    | 27 456           | 450              |
| Transport of staff                   | 51 000           | 22 973           |
| Travel and subsistence               | 39 972           | 32 580           |
| Uniforms                             | 20 880           | 12 857           |
| Venue decoration                     | 113 107          | 97 695           |
| <b>Total general expenses</b>        | <b>1 086 744</b> | <b>1 029 598</b> |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                          | 2007<br>R         | 2006<br>R         |
|----------------------------------------------------------|-------------------|-------------------|
| <b>19. CASH UTILISED BY OPERATIONS</b>                   |                   |                   |
| Surplus/(Deficit) for the year                           | ( 242 379)        | ( 100 876)        |
| Adjustment for:-                                         |                   |                   |
| Depreciation                                             | 860 174           | 835 916           |
| Interest income                                          | ( 98 861)         | ( 45 508)         |
| Interest paid                                            | 490               | -                 |
| Grants received                                          | (1 055 724)       | ( 996 940)        |
| <b>Operating deficit before working capital changes:</b> | <b>( 536 300)</b> | <b>( 307 408)</b> |
| (Increase)/Decrease in inventory                         | ( 30 825)         | ( 15 570)         |
| (Increase)/Decrease in debtors                           | ( 50 766)         | ( 47 350)         |
| (Increase)/Decrease in other debtors                     | -                 | -                 |
| Increase/(Decrease) in creditors                         | ( 24 437)         | ( 42 004)         |
| Increase/(Decrease) in VAT                               | 115 147           | ( 108 034)        |
| <b>Cash utilised by operations</b>                       | <b>( 527 181)</b> | <b>( 520 366)</b> |

**20. 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                 | 1 104 652        | 544 670        |
| Bank overdraft                         | ( 28 556)        | ( 25 473)      |
| <b>Total cash and cash equivalents</b> | <b>1 076 096</b> | <b>519 197</b> |

**21. EVENTS AFTER THE REPORTING DATE**

No material fact or circumstance has occurred between the accounting date and the date of this report other than those items already mentioned.

(Cont/...)



**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

**22. DEPARTURES FROM THE STANDARDS**

**IAS 16 "PROPERTY, PLANT AND EQUIPMENT"**

The company does not determine residual values for each item of property, plant and equipment, does not determine estimated useful lives with reference to the period over which the assets are expected to be available for use and does not depreciate each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost, separately as required by IAS 16 "Property, plant and equipment" .

**23. RETIREMENT BENEFIT INFORMATION**

The company contributes to the Old Mutual Orion Provident Fund, a defined contribution plan. This fund has been registered and governed under the Pension Fund Act, 1956, as amended.

The policy of the company is to provide retirement benefits for all its employees.

The contributions of R89 383 (2006 : R 71 539) were expensed in the current year.

**24. UNAUTHORISED EXPENDITURE**

No such expenditure was incurred in the current year.

**25. IRREGULAR EXPENDITURE**

No such expenditure was incurred in the current year.

**26. FRUITLESS AND WASTEFUL EXPENDITURE**

No such expenditure was incurred in the current year.

**27. CAPITAL COMMITMENTS**

No capital expenditure has been authorised nor contracted for.

**28. CONTINGENT LIABILITIES AND ASSETS**

We are not aware of any pending or threatened litigations, proceedings, hearings or claims or negotiations which may result in significant loss or possible recovery to the entity.

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                                                                                                               | 2007<br>R  | 2006<br>R  |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| <b>29. IN-KIND DONATIONS AND ASSISTANCE</b>                                                                                                   |            |            |
| No in-kind donations or assistance were received in the current year.                                                                         |            |            |
| <b>30. COMPARISON WITH BUDGET</b>                                                                                                             |            |            |
| The comparison of the entity's actual financial performance with that budgeted is set out in Annexures D(1) and D(2).                         |            |            |
| <b>31. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>                                                                |            |            |
| <b><u>31.2 Audit fees</u></b>                                                                                                                 |            |            |
| Opening balance                                                                                                                               | -          | 30 171     |
| Current year audit fee                                                                                                                        | 66 695     | 28 881     |
| Amount paid - current year                                                                                                                    | ( 66 695)  | ( 28 881)  |
| Amount paid - previous years                                                                                                                  | -          | ( 30 171)  |
| <b>Balance unpaid (included in creditors)</b>                                                                                                 | -          | -          |
| <b>31.3 VAT</b>                                                                                                                               |            |            |
| VAT inputs receivables and VAT outputs payables are shown in Note 2. All VAT returns have been submitted by the due date throughout the year. |            |            |
| <b>31.4 PAYE and UIF</b>                                                                                                                      |            |            |
| Opening balance                                                                                                                               | -          | -          |
| Current year payroll deductions                                                                                                               | 225 208    | 158 416    |
| Amount paid - current year                                                                                                                    | ( 225 208) | ( 158 416) |
| Amount paid - previous years                                                                                                                  | -          | -          |
| <b>Balance unpaid (included in creditors)</b>                                                                                                 | -          | -          |

(Cont/...)

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|                                                                                                                                                            | 2007                                                       | 2006                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
|                                                                                                                                                            | R                                                          | R                                                          |
| <b>31. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)</b>                                                                 |                                                            |                                                            |
| <b>31.4 PAYE and UIF (Continued)</b>                                                                                                                       |                                                            |                                                            |
| The PAYE and UIF deducted from the June 2007 payroll were paid over to the parent municipality during June 2007 and the balance unpaid at year-end is nil. |                                                            |                                                            |
| <b>31.5 Pension and Medical Aid Deductions</b>                                                                                                             |                                                            |                                                            |
| Opening balance                                                                                                                                            |                                                            |                                                            |
| Current year payroll deductions and Council Contributions                                                                                                  | 227 699                                                    | 204 329                                                    |
| Amount paid - current year                                                                                                                                 | ( 227 699)                                                 | ( 204 329)                                                 |
| Amount paid - previous years                                                                                                                               | <u>                    </u>                                | <u>                    </u>                                |
| <b>Balance unpaid (included in creditors)</b>                                                                                                              | <u>                    </u><br><u>                    </u> | <u>                    </u><br><u>                    </u> |

The pension and medical aid contributions deducted from employees in the June 2007 payroll, as well as Council's contributions to pension and medical aid funds, were paid over to the parent municipality during June 2007 and the balance unpaid at year-end is nil.

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|  | 2007 | 2006 |
|--|------|------|
|  | R    | R    |

### 32. FINANCIAL INSTRUMENTS

#### Liquidity risk

The company has managed its liquidity risk through an ongoing review of future commitments and credit facilities.

#### Overdraft facilities

Standard Bank of South Africa Limited

The overdraft limit on the short-term banking facilities is R 47 500

#### Securities

The Nelson Mandela Bay Metropolitan Municipality has provided security in respect of the overdraft facilities.

#### Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of cash and trade receivables. The company's cash equivalents are placed with high credit quality financial institutions. Trade receivables are presented net of the allowance for doubtful receivables. Trade debtors comprise a widespread customer base. Management evaluates credit risk relating to consumers on an ongoing basis.

The carrying amounts of financial assets included in the balance sheet represent the company's exposure to credit risk in relation to these assets.

#### Interest rate risk

Deposits attract interest at a rate that varies according to the prime banking rate. The company manages this interest rate risk by ensuring that all surplus funds are invested in fixed rate instruments and by maintaining the minimum possible balance in the current account.

#### Fair value

At 30 June 2007, the carrying amounts of cash, trade receivables, trade payables and accrued expenses approximated their fair values due to the short-term maturities of these assets and liabilities.

**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Continued)**

|  | 2007 | 2006 |
|--|------|------|
|  | R    | R    |

**33. RELATED PARTIES**

The entity's only related party is its parent municipality the Nelson Mandela Bay Metropolitan Municipality.

**Types of related party transactions**

Grants are received from the Nelson Mandela Bay Metropolitan Municipality to cover operating deficits of the entity.

The payroll administration is performed by the Nelson Mandela Bay Metropolitan Municipality. The entity reinverses its parent for all payroll costs paid on their behalf.

**Material related party transactions and balances**

| <b>Category</b>     | <b>2007</b> | <b>2006</b> |
|---------------------|-------------|-------------|
| <b>Transactions</b> | <b>R</b>    | <b>R</b>    |
| Grant received      | 1 055 724   | 996 940     |
| Payroll costs       | 1 355 792   | 1 139 757   |

**Category****Balances**

There was no related party balances receivable or payable at year-end

APPENDIX A  
 FEATHER MARKET PROMOTIONS  
 Trading as FEATHER MARKET CENTRE  
 (ASSOCIATION INCORPORATED UNDER SECTION 21)  
 ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007

| Category               | Cost:           |               |           |                  |                  | Accumulated depreciation: |           |                  |                |  | Carrying Value |
|------------------------|-----------------|---------------|-----------|------------------|------------------|---------------------------|-----------|------------------|----------------|--|----------------|
|                        | Opening Balance | Additions     | Disposals | Closing Balance  | Opening Balance  | Depreciation              | Disposals | Closing Balance  | Carrying Value |  |                |
| Other assets           | 968 937         | 70 015        | -         | 1 038 952        | (710 447)        | (111 533)                 | -         | (821 980)        | 216 972        |  |                |
| Furniture and fittings | 263 771         | 43 145        | -         | 306 916          | (205 096)        | (26 299)                  | -         | (231 395)        | 75 521         |  |                |
| Office equipment       | 241 223         | 26 870        | -         | 268 093          | (203 405)        | (34 319)                  | -         | (237 724)        | 30 369         |  |                |
| Motor vehicles         | 383 102         | -             | -         | 383 102          | (222 650)        | (49 370)                  | -         | (272 020)        | 111 082        |  |                |
| Computer software      | 10 928          | -             | -         | 10 928           | (10 928)         | -                         | -         | (10 928)         | -              |  |                |
| Computer equipment     | 66 762          | -             | -         | 66 762           | (65 745)         | (1 017)                   | -         | (66 762)         | -              |  |                |
| Audio visual equipment | 3 151           | -             | -         | 3 151            | (2 623)          | (528)                     | -         | (3 151)          | -              |  |                |
| <b>Total</b>           | <b>968 937</b>  | <b>70 015</b> | <b>-</b>  | <b>1 038 952</b> | <b>(710 447)</b> | <b>(111 533)</b>          | <b>-</b>  | <b>(821 980)</b> | <b>216 972</b> |  |                |



THIS APPENDIX IS NOT APPLICABLE TO THIS ENTITY

**APPENDIX C**  
**FEATHER MARKET PROMOTIONS**  
 Trading as FEATHER MARKET CENTRE  
 (ASSOCIATION INCORPORATED UNDER SECTION 21)  
**SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007**

|         |          | 2007                  |                    | 2007    |          | 2007                  |   |
|---------|----------|-----------------------|--------------------|---------|----------|-----------------------|---|
| Revenue | Expenses | Surplus/<br>(Deficit) | Department         | Revenue | Expenses | Surplus/<br>(Deficit) |   |
| R       | R        | R                     |                    | R       | R        | R                     | R |
|         |          |                       |                    |         |          |                       |   |
|         |          |                       | Municipal Council  |         |          |                       |   |
|         |          |                       | Administration     |         |          |                       |   |
|         |          |                       | Technical Services |         |          |                       |   |
|         |          |                       | Regional Services  |         |          |                       |   |
|         |          |                       |                    |         |          |                       |   |
| -       | -        | -                     | <b>Total</b>       | -       | -        | -                     | - |



**APPENDIX D(1)**  
**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**  
**ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2007**

|                                     | 2007<br>Actual (R) | 2007<br>Budget (R) | 2007<br>Variance (R) | 2007<br>Variance (%) | Explanation of significant variances<br>greater than 10% versus budget                                                                                                                                                                                                                                  |
|-------------------------------------|--------------------|--------------------|----------------------|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue</b>                      |                    |                    |                      |                      |                                                                                                                                                                                                                                                                                                         |
| Gross profit - bar and catering     | 2 174 910          | 1 632 710          | 542 200              | 33.21%               | Catering income and facility hire had a large growth pattern, which is ahead of the budgeted figures for the year. The reason for this is due to a substantial increase in the number of events hosted at the Centre and a large increase in delegate numbers attending the various conferences hosted. |
| Gross profit - rental of facilities | 1 096 764          | 814 400            | 282 364              | 34.67%               | The increase from rental was due to large increase in rental of space for events such as exhibitions and concerts.                                                                                                                                                                                      |
| Government grants                   | 1 055 724          | 1 046 790          | 8 934                | 0.85%                | N/A                                                                                                                                                                                                                                                                                                     |
| Interest earned                     | 98 861             | 31 900             | 66 961               | 209.91%              |                                                                                                                                                                                                                                                                                                         |
| Sundry income                       | 293 870            | 304 500            | ( 10 630)            | -3.49%               | N/A                                                                                                                                                                                                                                                                                                     |
|                                     |                    |                    |                      |                      |                                                                                                                                                                                                                                                                                                         |
| <b>Expenditure</b>                  |                    |                    |                      |                      |                                                                                                                                                                                                                                                                                                         |
| Employee related costs              | 2 006 153          | 1 861 783          | 144 370              | 7.75%                | N/A                                                                                                                                                                                                                                                                                                     |
| Repairs and maintenance             | 230 039            | 174 000            | 56 039               | 32.21%               | Actual expenditure exceeded the budgeted figures mainly due to the increase in the maintenance of items in the venue. On-going rehabilitation and maintenance of painting, wood-work, upholstery, carpeting resulted in the over-expenditure.                                                           |
| General expenses                    | 2 726 316          | 1 468 935          | 1 257 381            | 85.60%               | Actual expenditure exceeded the budgeted figures mainly due to inflationary increases and increases in expenditure directly associated with the increase in revenue, namely selling and distribution expenses, contracted services and others.                                                          |



**APPENDIX E**  
**FEATHER MARKET PROMOTIONS**  
**Trading as FEATHER MARKET CENTRE**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2007**

| Name of grants | Name of organ of state or municipal entity | Quarterly receipts |      |           |     | Quarterly expenditure |      |      |     | Grants and subsidies delayed / withheld |      |      |     | Reason for delay / withholding of funds | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for non-compliance |       |          |
|----------------|--------------------------------------------|--------------------|------|-----------|-----|-----------------------|------|------|-----|-----------------------------------------|------|------|-----|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------|-------|----------|
|                |                                            | March              | June | Sept      | Dec | March                 | June | Sept | Dec | March                                   | June | Sept | Dec |                                         |                                                                                                                          |                           | March | Yes / No |
| Grant in aid   | NMIMM                                      |                    |      | 1 055 724 |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           | n/a   |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |
|                |                                            |                    |      |           |     |                       |      |      |     |                                         |      |      |     |                                         |                                                                                                                          |                           |       |          |

Note: An entity should provide additional information on how a grant was spent per vote. This excludes allocations from the equitable share.

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

Incorporated in the Republic of South Africa  
 Registration number: 1995/010736/08

**FINANCIAL STATEMENTS**  
 for the year ended 30 June 2007

**Nature of business:** The hiring out of Centenary Hall for concerts, conferences, exhibitions and related events

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**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007**

|                                         | Notes | 2007<br>R      | 2006<br>R      |
|-----------------------------------------|-------|----------------|----------------|
| <b>NET ASSETS AND LIABILITIES</b>       |       |                |                |
| <b>Net assets</b>                       |       | 379,614        | 492,105        |
| Accumulated surplus                     |       | <u>379,614</u> | <u>492,105</u> |
| <b>Current liabilities</b>              |       | 151,688        | 33,397         |
| Trade and other payables                | 1     | <u>151,688</u> | <u>17,838</u>  |
| VAT                                     | 2     | <u>-</u>       | <u>15,559</u>  |
| <b>Total net assets and liabilities</b> |       | <u>531,302</u> | <u>525,502</u> |
| <b>ASSETS</b>                           |       |                |                |
| <b>Non-current assets</b>               |       | 183,463        | 254,123        |
| Property, plant and equipment           | 3     | <u>183,463</u> | <u>254,123</u> |
| <b>Current assets</b>                   |       | 347,839        | 271,379        |
| Trade Receivables                       | 4     | <u>46,250</u>  | <u>52,840</u>  |
| Other Receivables                       | 5     | <u>18,518</u>  | <u>187,872</u> |
| VAT                                     | 2     | <u>4,564</u>   | <u>-</u>       |
| Cash and Cash Equivalents               | 6     | <u>278,507</u> | <u>30,667</u>  |
| <b>Total assets</b>                     |       | <u>531,302</u> | <u>525,502</u> |

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2007**

|                                          | Notes | 2007<br>R        | 2006<br>R       |
|------------------------------------------|-------|------------------|-----------------|
| <b>REVENUE</b>                           |       |                  |                 |
| Operating grant                          | 7     | 55,460           | 52,820          |
| ATM rental                               |       | 41,984           | 33,775          |
| Equipment hire                           |       | 5,544            | 6,620           |
| Facility hire                            |       | 178,171          | 154,354         |
| Great Hall hire                          |       | 414,707          | 393,600         |
| Interest earned                          |       | 13,629           | 19,774          |
| Bar sales                                |       | -                | 18              |
| Catering sales                           |       | -                | 8,316           |
| Decrease in provision for doubtful debts |       | -                | 6,000           |
| Profit on sale of vehicle                |       | -                | 13,000          |
| <b>Total revenue</b>                     |       | <b>709,495</b>   | <b>688,277</b>  |
| <b>EXPENDITURE</b>                       |       |                  |                 |
| Accounting fees                          |       | 22,759           | 18,106          |
| Audit fees                               |       | 121,558          | -               |
| Bank charges                             |       | 5,682            | 6,009           |
| Bar purchases                            |       | 105              | 15              |
| Catering purchases                       |       | 23,543           | 29,789          |
| Cleaning materials                       |       | 14,868           | 26,432          |
| Depreciation                             |       | 70,660           | 62,340          |
| Electricity                              |       | 52,459           | 63,400          |
| Employee related costs                   | 8     | 370,871          | 385,264         |
| Entertainment and promotion fee          |       | 1,700            | -               |
| Equipment hire                           |       | 706              | 3,939           |
| Expendable equipment                     |       | 1,226            | 9,374           |
| Increase in provision for doubtful debts |       | 26,750           | -               |
| Interest paid                            |       | 95               | -               |
| Laundry                                  |       | 2,799            | 2,589           |
| Marketing                                |       | 14,880           | 24,829          |
| Motor vehicle expenses                   |       | 16,685           | 10,180          |
| Postage, telephone and fax               |       | 33,336           | 37,540          |
| Refreshments                             |       | 123              | 747             |
| Refuse removal                           |       | 3,307            | 1,050           |
| Repairs and maintenance                  |       | 27,159           | 43,043          |
| RSC levies                               |       | 233              | 1,729           |
| Stationery and printing                  |       | 1,462            | 3,843           |
| Stationery - promotional                 |       | -                | 810             |
| Subscriptions                            |       | 1,305            | 439             |
| Training and development                 |       | 6,705            | 3,100           |
| Travel and subsistence                   |       | 1,010            | -               |
| Uniforms                                 |       | -                | 1,085           |
| <b>Total expenditure</b>                 |       | <b>821,986</b>   | <b>735,652</b>  |
| <b>DEFICIT FOR THE YEAR</b>              |       | <b>(112,491)</b> | <b>(47,375)</b> |

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

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

|                                | Accumulated<br>Surplus | Total                 |
|--------------------------------|------------------------|-----------------------|
|                                | <u>R</u>               | <u>R</u>              |
| <b>2006</b>                    |                        |                       |
| Balance at 1 July 2005         | 639,650                | 639,650               |
| Correction of error            | <u>(100,170)</u>       | <u>(100,170)</u>      |
| Restated balance               | 539,480                | 539,480               |
| Deficit for the year           | <u>(47,375)</u>        | <u>(47,375)</u>       |
| <b>Balance at 30 June 2006</b> | <u><u>492,105</u></u>  | <u><u>492,105</u></u> |
| <b>2007</b>                    |                        |                       |
| Balance at 1 July 2006         | 492,105                | 492,105               |
| Deficit for the year           | <u>(112,491)</u>       | <u>(112,491)</u>      |
| <b>Balance at 30 June 2007</b> | <u><u>379,614</u></u>  | <u><u>379,614</u></u> |

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|                                                             | Notes | 2007<br>R        | 2006<br>R        |
|-------------------------------------------------------------|-------|------------------|------------------|
| <b>Cash flow from operating activities</b>                  |       |                  |                  |
| Cash receipts from customers                                |       | 578,262          | 604,003          |
| Cash paid to suppliers and employees                        |       | <u>(399,416)</u> | <u>(623,703)</u> |
| Cash generated by/(utilised in) operations                  | 9     | 178,846          | (19,700)         |
| Interest earned                                             |       | 13,629           | 19,774           |
| Interest paid                                               |       | (95)             |                  |
| Grant received                                              |       | <u>55,460</u>    | <u>52,820</u>    |
| <b>Net cash flow from operating activities</b>              |       | <u>247,840</u>   | <u>52,894</u>    |
| <b>Cash flow from investing activities</b>                  |       |                  |                  |
| Purchase of property, plant and equipment                   |       | -                | (161,719)        |
| <b>Net cash flow from investing activities</b>              |       | <u>-</u>         | <u>(161,719)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       |                  |                  |
| Cash and cash equivalents at beginning of year              |       | <u>30,667</u>    | <u>139,492</u>   |
| <b>Cash and cash equivalents at end of year</b>             | 10    | <u>278,507</u>   | <u>30,667</u>    |



**CENTENARY HALL PROMOTIONS**  
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**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**1. Basis of preparation**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

In accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the company has adopted Standards of GAMAP, GRAP and SA GAAP, issued by the Accounting Standards Board.

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.

**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.

**4. Property, plant and equipment**

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

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified, except where the impairment reverses a previous revaluation.

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:

|                        |         |
|------------------------|---------|
| Furniture and fittings | 6 years |
| Motor vehicles         | 5 years |
| Office equipment       | 3 years |
| Computer software      | 2 years |
| Computer equipment     | 3 years |

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.

**5. Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

**5.1 Revenue from government grants**

Revenue from the grant is recognised, at fair value, on receipt of the grant.

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
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**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (CONTINUED)**

**5. Revenue recognition (continued)**

5.2 Revenue from hiring out of facilities

Revenue from income earned on the hiring out of facilities and equipment for functions as well as bar and catering sales is recognised once the function has taken place.

5.3 Interest

Interest is recognised on a time proportionate basis over the period that the assets are expected to be held.

**6. Operating grants and receipts**

Revenue received from operating grants is recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

**7. Borrowing costs**

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

**8. Financial instruments**

Financial instruments recognised on the balance sheet include cash and cash equivalents, trade receivables, trade creditors and borrowings.

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

8.1 Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at cost.

8.2 Trade and other payables

Trade payables are stated at their nominal value.

8.3 Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

8.4 Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

8.5 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

**9. Provisions**

Provisions are recognised when the company has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting sheet date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to the company.

**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.

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 overdrafts are expensed as incurred.

**CENTENARY HALL PROMOTIONS**  
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**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (CONTINUED)**

**11. 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.

**12. 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 or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**13. 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.

**14. Related Party disclosures**

The entity is solely controlled by the Nelson Mandela Bay Municipality and receives an annual grant from them. The Nelson Mandela Bay Municipality also holds funds of the entity, which it invests on their behalf.

**CENTENARY HALL PROMOTIONS**  
Trading as CENTENARY HALL  
(ASSOCIATION INCORPORATED UNDER SECTION 21)

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

|                                                                                                | 2007<br>R                           | 2006<br>R                   |                               |                                     |                                |                    |
|------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------|-------------------------------|-------------------------------------|--------------------------------|--------------------|
| <b>1. Trade and Other Payables</b>                                                             |                                     |                             |                               |                                     |                                |                    |
| Accruals                                                                                       | 10,922                              | 11,338                      |                               |                                     |                                |                    |
| Provision for accounting fees                                                                  | 2,189                               | 6,500                       |                               |                                     |                                |                    |
| Provision for audit fees                                                                       | 138,577                             | -                           |                               |                                     |                                |                    |
|                                                                                                | <u>151,688</u>                      | <u>17,838</u>               |                               |                                     |                                |                    |
| <b>2. VAT</b>                                                                                  |                                     |                             |                               |                                     |                                |                    |
| VAT payable                                                                                    | -                                   | 15,559                      |                               |                                     |                                |                    |
| VAT receivable                                                                                 | 4,564                               | -                           |                               |                                     |                                |                    |
|                                                                                                | <u>4,564</u>                        | <u>15,559</u>               |                               |                                     |                                |                    |
| VAT is payable on the receipts basis. Only once payment is received, is VAT paid over to SARS. |                                     |                             |                               |                                     |                                |                    |
| <b>3. Property, plant and equipment</b>                                                        |                                     |                             |                               |                                     |                                |                    |
| <b>June 2007</b>                                                                               |                                     |                             |                               |                                     |                                |                    |
| <b>Reconciliation of carrying value</b>                                                        | <b>Furniture and fittings<br/>R</b> | <b>Motor vehicles<br/>R</b> | <b>Office equipment<br/>R</b> | <b>Computer equipment<br/>R</b>     | <b>Computer software<br/>R</b> | <b>Total<br/>R</b> |
| <b>Carrying values at 1 July 2006</b>                                                          | 91,426                              | 151,021                     | 11,673                        | 3                                   | -                              | 254,123            |
| Acquisitions                                                                                   | -                                   | -                           | -                             | -                                   | -                              | -                  |
| Depreciation                                                                                   | (31,472)                            | (31,794)                    | (7,391)                       | (3)                                 | -                              | (70,660)           |
| <b>Carrying values at 30 June 2007</b>                                                         | <u>59,954</u>                       | <u>119,227</u>              | <u>4,282</u>                  | <u>-</u>                            | <u>-</u>                       | <u>183,463</u>     |
| <b>June 2006</b>                                                                               |                                     |                             |                               |                                     |                                |                    |
| <b>Carrying values at 1 July 2005</b>                                                          | 123,487                             | 4,000                       | 26,247                        | 1,010                               | -                              | 154,744            |
| Acquisitions                                                                                   | -                                   | 158,969                     | 2,750                         | -                                   | -                              | 161,719            |
| Depreciation                                                                                   | (32,061)                            | (11,948)                    | (17,324)                      | (1,007)                             | -                              | (62,340)           |
| <b>Carrying values at 30 June 2006</b>                                                         | <u>91,426</u>                       | <u>151,021</u>              | <u>11,673</u>                 | <u>3</u>                            | <u>-</u>                       | <u>254,123</u>     |
| <b>4. Trade Receivables</b>                                                                    |                                     |                             |                               |                                     |                                |                    |
|                                                                                                |                                     |                             | <b>Gross balances</b>         | <b>Provision for doubtful debts</b> | <b>Net balances</b>            |                    |
| <b>As at 30 June 2007</b>                                                                      |                                     |                             |                               |                                     |                                |                    |
| Trade receivables                                                                              |                                     |                             | <u>77,220</u>                 | <u>(30,970)</u>                     | <u>46,250</u>                  |                    |
| <b>As at 30 June 2006</b>                                                                      |                                     |                             |                               |                                     |                                |                    |
| Trade receivables                                                                              |                                     |                             | <u>57,060</u>                 | <u>(4,220)</u>                      | <u>52,840</u>                  |                    |
|                                                                                                |                                     |                             | <b>2007<br/>R</b>             | <b>2006<br/>R</b>                   |                                |                    |
| <b>Ageing</b>                                                                                  |                                     |                             |                               |                                     |                                |                    |
| Current                                                                                        |                                     |                             | 18,760                        | 16,120                              |                                |                    |
| 31 - 60 days                                                                                   |                                     |                             | 7,810                         | 39,720                              |                                |                    |
| 61 - 90 days                                                                                   |                                     |                             | 680                           | 1,220                               |                                |                    |
| Older than 90 days                                                                             |                                     |                             | 49,970                        | -                                   |                                |                    |
|                                                                                                |                                     |                             | <u>77,220</u>                 | <u>57,060</u>                       |                                |                    |

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (CONTINUED)**

|                                                                               | 2007<br>R             | 2006<br>R              |
|-------------------------------------------------------------------------------|-----------------------|------------------------|
| <b>5. Other Receivables</b>                                                   |                       |                        |
| Deposits                                                                      | 15,400                | 15,400                 |
| Nelson Mandela Bay Municipality                                               | 3,118                 | 171,551                |
| Toshiba Laser Fax                                                             | -                     | 921                    |
|                                                                               | <u>18,518</u>         | <u>187,872</u>         |
| <b>6. Cash and Cash Equivalents</b>                                           |                       |                        |
| <i>The company has the following bank account:</i>                            |                       |                        |
| <b><u>Current Account</u></b>                                                 |                       |                        |
| Standard Bank - Port Elizabeth Branch - Account number<br>080194443           |                       |                        |
| Cash book balance at beginning of year                                        | <u>29,658</u>         | <u>138,483</u>         |
| Cash book balance at end of year                                              | <u>277,498</u>        | <u>29,658</u>          |
| Bank statement balance at beginning of year                                   | <u>45,421</u>         | <u>143,601</u>         |
| Bank statement balance at end of year                                         | <u>151,496</u>        | <u>45,421</u>          |
| <i>Which are disclosed in the Statement of Financial Position as follows:</i> |                       |                        |
| Bank balances and cash                                                        | 278,507               | 30,667                 |
| Bank balances                                                                 | 277,498               | 29,658                 |
| Petty cash float                                                              | 409                   | 409                    |
| Casual wages float                                                            | 600                   | 600                    |
| <b>7. Operating grant</b>                                                     |                       |                        |
| Current year receipts                                                         | 55,460                | 52,820                 |
| Conditions met - transferred to revenue                                       | <u>(55,460)</u>       | <u>(52,820)</u>        |
| Conditions still to be met                                                    | <u>-</u>              | <u>-</u>               |
| The operating grant is used to cover any operating deficit that may occur.    |                       |                        |
| <b>8. Employee related costs</b>                                              |                       |                        |
| Employee related costs - salaries and wages                                   | <u>370,871</u>        | <u>385,264</u>         |
| <b><i>Remuneration of the Manager</i></b>                                     |                       |                        |
| Annual remuneration                                                           | 113,508               | 106,584                |
| Annual and long service bonuses                                               | 11,729                | 8,379                  |
| Contributions to UIF, Medical and Pension Funds                               | <u>45,701</u>         | <u>44,258</u>          |
|                                                                               | <u>170,938</u>        | <u>159,221</u>         |
| <b>9. Cash generated by/(utilised in) operations</b>                          |                       |                        |
| Deficit for the year                                                          | (112,491)             | (47,375)               |
| Adjusted for:                                                                 |                       |                        |
| - Depreciation                                                                | 70,660                | 62,340                 |
| - Interest earned                                                             | (13,629)              | (19,774)               |
| - Interest paid                                                               | 95                    | -                      |
| - Grant received                                                              | <u>(55,460)</u>       | <u>(52,820)</u>        |
| <b>Operating deficit before working capital changes</b>                       | <b>(110,825)</b>      | <b>(57,629)</b>        |
| - (Increase)/Decrease in trade receivables                                    | 6,590                 | (51,500)               |
| - Decrease in other receivables                                               | 169,354               | 96,485                 |
| - Increase/(Decrease) in payables                                             | 133,850               | (18,024)               |
| - (Decrease)/Increase in vat                                                  | <u>(20,123)</u>       | <u>10,968</u>          |
| <b>Cash generated by/(utilised in) operations</b>                             | <b><u>178,846</u></b> | <b><u>(19,700)</u></b> |

**CENTENARY HALL PROMOTIONS**  
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**(ASSOCIATION INCORPORATED UNDER SECTION 21)**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (CONTINUED)**

|                                                                                                                                                                                                                                   | <b>2007</b>     | <b>2006</b>     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
|                                                                                                                                                                                                                                   | <b>R</b>        | <b>R</b>        |
| <b>10. Cash and cash equivalents</b>                                                                                                                                                                                              |                 |                 |
| Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:                                                                                          |                 |                 |
| Bank balances and cash                                                                                                                                                                                                            | <u>278,507</u>  | <u>30,667</u>   |
| <b>11. Financial instruments</b>                                                                                                                                                                                                  |                 |                 |
| Interest rate management                                                                                                                                                                                                          |                 |                 |
| As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. |                 |                 |
| Credit risk management                                                                                                                                                                                                            |                 |                 |
| The company only deposits cash surpluses with major banks of high quality credit standing.                                                                                                                                        |                 |                 |
| Liquidity risk                                                                                                                                                                                                                    |                 |                 |
| The company has managed its liquidity risk by ensuring that it has adequate banking facilities and reserve borrowing capacity.                                                                                                    |                 |                 |
| Fair value                                                                                                                                                                                                                        |                 |                 |
| The Manager is of the opinion that the book value of financial instruments approximates fair value.                                                                                                                               |                 |                 |
| <b>12. Unauthorised, irregular, fruitless and wasteful expenditure</b>                                                                                                                                                            |                 |                 |
| No unauthorised, irregular, fruitless and wasteful expenditure was incurred during the year.                                                                                                                                      |                 |                 |
| <b>13. Additional disclosures in terms of Municipal Finance Management Act</b>                                                                                                                                                    |                 |                 |
| <b>13.1 Audit fees</b>                                                                                                                                                                                                            |                 |                 |
| Opening balance                                                                                                                                                                                                                   | -               | -               |
| Current year audit fee                                                                                                                                                                                                            | 138,577         | -               |
| Amount paid - current year                                                                                                                                                                                                        | -               | -               |
| <b>Balance unpaid (included in payables)</b>                                                                                                                                                                                      | <u>138,577</u>  | <u>-</u>        |
| <b>13.2 VAT</b>                                                                                                                                                                                                                   |                 |                 |
| VAT inputs receivables and VAT outputs receivables are shown in Note 2.<br>All VAT returns have been submitted by the due date throughout the year.                                                                               |                 |                 |
| <b>13.3 PAYE AND UIF</b>                                                                                                                                                                                                          |                 |                 |
| Opening balance                                                                                                                                                                                                                   | -               | -               |
| Current year payroll deductions                                                                                                                                                                                                   | 22,987          | 21,403          |
| Amount paid - current year                                                                                                                                                                                                        | <u>(22,987)</u> | <u>(21,403)</u> |
| <b>Balance unpaid (included in payables)</b>                                                                                                                                                                                      | <u>-</u>        | <u>-</u>        |
| <b>13.4 Pension and Medical Aid Deductions</b>                                                                                                                                                                                    |                 |                 |
| Opening balance                                                                                                                                                                                                                   | -               | -               |
| Current year payroll deductions                                                                                                                                                                                                   | 68,861          | 62,894          |
| Amount paid - current year                                                                                                                                                                                                        | <u>(68,861)</u> | <u>(62,894)</u> |
| <b>Balance unpaid (included in payables)</b>                                                                                                                                                                                      | <u>-</u>        | <u>-</u>        |

**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007 (CONTINUED)**

|                                                                                                                                     | 2007          | 2006           |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------|
|                                                                                                                                     | R             | R              |
| <b>13. Additional disclosures in terms of Municipal Finance Management Act (continued)</b>                                          |               |                |
| <b>13.5 List of entities and related transactions</b>                                                                               |               |                |
| The entity is solely controlled by the Nelson Mandela Bay Municipality and has received the following grant:                        |               |                |
| Nelson Mandela Bay Municipality                                                                                                     | <u>55,460</u> | <u>52,820</u>  |
| The Nelson Mandela Bay Municipality holds funds of the entity which it invests on their behalf. The balance invested at year end is | <u>3,118</u>  | <u>171,551</u> |
| <b>14. Capital commitments</b>                                                                                                      |               |                |
| No capital commitments in respect of capital purchases were committed to within the next financial year.                            |               |                |
| <b>15. Contingent liabilities</b>                                                                                                   |               |                |
| No contingent liabilities existed at year-end.                                                                                      |               |                |
| <b>16. Contingent assets</b>                                                                                                        |               |                |
| No contingent assets existed at year-end.                                                                                           |               |                |
| <b>17. In-kind donations and assistance</b>                                                                                         |               |                |
| No in-kind donations and assistance were received during the year.                                                                  |               |                |
| <b>18. Events after the reporting date</b>                                                                                          |               |                |
| There have been no subsequent events that will impact on the financial statements.                                                  |               |                |
| <b>19. Comparison with the budget</b>                                                                                               |               |                |
| The comparison of the company's actual financial performance with that budgeted is set out in Annexure B.                           |               |                |





**CENTENARY HALL PROMOTIONS**  
**Trading as CENTENARY HALL**  
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**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007 (CONTINUED)**

|                              | Cost            |           |           | Accumulated depreciation |                 |           | Carrying Value |           |         |
|------------------------------|-----------------|-----------|-----------|--------------------------|-----------------|-----------|----------------|-----------|---------|
|                              | Opening Balance | Additions | Disposals | Closing Balance          | Opening balance | Additions |                | Disposals |         |
| <b>Total brought forward</b> | 424,767         | -         | -         | 424,767                  | 182,320         | 63,266    | -              | 245,566   | 179,181 |
| <b>Office Equipment</b>      |                 |           |           |                          |                 |           |                |           |         |
| Photocopier                  | 9,995           | -         | -         | 9,995                    | 9,995           | -         | -              | 9,995     | -       |
| PA System                    | 3,188           | -         | -         | 3,188                    | 3,188           | -         | -              | 3,188     | -       |
| Heater                       | 63              | -         | -         | 63                       | 63              | -         | -              | 63        | -       |
| Flipchart stand              | 240             | -         | -         | 240                      | 240             | -         | -              | 240       | -       |
| Hybrid stereo power amp      | 2,101           | -         | -         | 2,101                    | 2,101           | -         | -              | 2,101     | -       |
| Phonic equaliser             | 1,399           | -         | -         | 1,399                    | 1,399           | -         | -              | 1,399     | -       |
| Monitors                     | 2,096           | -         | -         | 2,096                    | 2,096           | -         | -              | 2,096     | -       |
| Phonic 12-channel mixer      | 3,680           | -         | -         | 3,680                    | 3,680           | -         | -              | 3,680     | -       |
| Multicore balanced snake     | 1,224           | -         | -         | 1,224                    | 1,224           | -         | -              | 1,224     | -       |
| Speaker lead                 | 219             | -         | -         | 219                      | 219             | -         | -              | 219       | -       |
| Samsung TV 51 cm             | 1,403           | -         | -         | 1,403                    | 1,403           | -         | -              | 1,403     | -       |
| Samsung VCR                  | 1,403           | -         | -         | 1,403                    | 1,403           | -         | -              | 1,403     | -       |
| Technics CD Player           | 1,403           | -         | -         | 1,403                    | 1,403           | -         | -              | 1,403     | -       |
| Fan                          | 702             | -         | -         | 702                      | 702             | -         | -              | 702       | -       |
| Dual tape deck               | 1,575           | -         | -         | 1,575                    | 1,575           | -         | -              | 1,575     | -       |
| Mini monitor                 | 1,048           | -         | -         | 1,048                    | 1,048           | -         | -              | 1,048     | -       |
| Microphone stands            | 655             | -         | -         | 655                      | 655             | -         | -              | 655       | -       |
| Microphones                  | 776             | -         | -         | 776                      | 776             | -         | -              | 776       | -       |
| Table microphone and stand   | 126             | -         | -         | 126                      | 126             | -         | -              | 126       | -       |
| Phaser                       | 1,499           | -         | -         | 1,499                    | 1,499           | -         | -              | 1,499     | -       |
| Pull-down screen             | 530             | -         | -         | 530                      | 530             | -         | -              | 530       | -       |
| Speakers                     | 6,579           | -         | -         | 6,579                    | 6,579           | -         | -              | 6,579     | -       |
| PA System                    | 8,741           | -         | -         | 8,741                    | 8,741           | -         | -              | 8,741     | -       |
| PA System                    | 34,211          | -         | -         | 34,211                   | 34,211          | -         | -              | 34,211    | -       |
| Cordless Microphone          | 3,465           | -         | -         | 3,465                    | 2,116           | 1,154     | -              | 3,270     | 195     |
| DVD/CD Player                | 4,386           | -         | -         | 4,386                    | 2,556           | 1,461     | -              | 4,017     | 369     |
| Kirby Vacuum Cleaner         | 11,595          | -         | -         | 11,595                   | 5,470           | 3,861     | -              | 9,331     | 2,264   |
| Wet and dry vacuum cleaner   | 2,750           | -         | -         | 2,750                    | 381             | 915       | -              | 1,296     | 1,454   |
|                              | 107,052         | -         | -         | 107,052                  | 95,379          | 7,391     | -              | 102,770   | 4,282   |
| <b>Total carried forward</b> | 531,819         | -         | -         | 531,819                  | 277,699         | 70,657    | -              | 348,356   | 183,463 |

CENTENARY HALL PROMOTIONS  
Trading as CENTENARY HALL  
(ASSOCIATION INCORPORATED UNDER SECTION 21)

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2007 (CONTINUED)

|                                 | Cost            |           |           | Accumulated depreciation |                 |           | Carrying Value |           |                 |
|---------------------------------|-----------------|-----------|-----------|--------------------------|-----------------|-----------|----------------|-----------|-----------------|
|                                 | Opening Balance | Additions | Disposals | Closing Balance          | Opening balance | Additions |                | Disposals | Closing Balance |
| <b>Total brought forward</b>    | 531,819         | -         | -         | 531,819                  | 277,699         | 70,657    | -              | 348,356   | 183,463         |
| <b>Computer Equipment</b>       |                 |           |           |                          |                 |           |                |           |                 |
| Computer                        | 6,195           | -         | -         | 6,195                    | 6,195           | -         | -              | 6,195     | -               |
| Printer                         | 1,833           | -         | -         | 1,833                    | 1,833           | -         | -              | 1,833     | -               |
| Computer                        | 8,940           | -         | -         | 8,940                    | 8,940           | -         | -              | 8,940     | -               |
| Computer and office jet printer | 3,024           | -         | -         | 3,024                    | 3,021           | 3         | -              | 3,024     | -               |
| Optical mouse                   | 174             | -         | -         | 174                      | 174             | -         | -              | 174       | -               |
|                                 | 20,166          | -         | -         | 20,166                   | 20,163          | 3         | -              | 20,166    | -               |
| <b>Computer software</b>        |                 |           |           |                          |                 |           |                |           |                 |
| Software                        | 1,690           | -         | -         | 1,690                    | 1,690           | -         | -              | 1,690     | -               |
| <b>Total</b>                    | 553,675         | -         | -         | 553,675                  | 299,552         | 70,660    | -              | 370,212   | 183,463         |

CENTENARY HALL PROMOTIONS  
Trading as CENTENARY HALL  
(ASSOCIATION INCORPORATED UNDER SECTION 21)  
  
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2007

| REVENUE                                         | 2007 Actual R    | 2007 Budget R    | 2007 Variance R | 2007 Variance % | Explanation of Significant Variances greater than 10% versus Budget |
|-------------------------------------------------|------------------|------------------|-----------------|-----------------|---------------------------------------------------------------------|
| Operating grant                                 | 55,460           | 70,440           | (14,980)        | (21)            |                                                                     |
| ATM rental                                      | 41,984           | 39,390           | 2,604           | 7               |                                                                     |
| Equipment Hire                                  | 5,544            | 6,590            | (1,046)         | (16)            |                                                                     |
| Facility hire, Great Hall Hire and Kosk Hire    | 592,878          | 591,910          | 968             | 0               |                                                                     |
| Interest earned                                 | 13,629           | 34,430           | (20,801)        | (60)            |                                                                     |
| Decrease in provision for doubtful debts        | -                | -                | -               | -               |                                                                     |
| <b>Total revenue</b>                            | <b>709,495</b>   | <b>742,750</b>   | <b>(33,255)</b> | <b>(4)</b>      |                                                                     |
| <b>EXPENDITURE</b>                              |                  |                  |                 |                 |                                                                     |
| Accounting fees                                 | 22,759           | 40,160           | (17,401)        | (43)            |                                                                     |
| Audit fees                                      | 121,558          | -                | 121,558         | 10              |                                                                     |
| Bank charges                                    | 5,692            | 5,150            | 532             | 10              |                                                                     |
| Bar purchases                                   | 105              | -                | 105             | -               |                                                                     |
| Catering purchases                              | 23,543           | -                | 23,543          | -               |                                                                     |
| Cleaning materials                              | 19,950           | 19,950           | (5,062)         | (25)            |                                                                     |
| Depreciation                                    | 14,668           | 30,450           | 40,210          | 132             | Depreciation on vehicle not taken into account                      |
| 70,660                                          | 7,770            | (7,770)          | (100)           |                 |                                                                     |
| Doubtful debts                                  | -                | 162,860          | (162,860)       | (66)            |                                                                     |
| Electricity, water, sewerage and refuse removal | 55,766           | -                | 55,766          | -               |                                                                     |
| Employee related costs                          | 370,871          | 575,150          | (204,279)       | (36)            |                                                                     |
| Entertainment and promotion fee                 | 1,700            | 4,410            | (2,710)         | (61)            |                                                                     |
| Equipment hire                                  | 705              | 5,250            | (4,544)         | (87)            |                                                                     |
| Expendable equipment                            | 1,226            | 76,130           | (74,904)        | (98)            |                                                                     |
| General expenses                                | 26,750           | 2,100            | 26,750          | (100)           |                                                                     |
| Increase in provision for doubtful debts        | 95               | -                | 95              | -               |                                                                     |
| Interest paid                                   | 2,799            | 4,730            | (1,931)         | (41)            |                                                                     |
| Laundry                                         | -                | 5,780            | (5,780)         | (100)           |                                                                     |
| Locomotion Casual                               | 14,890           | 24,150           | (9,270)         | (39)            |                                                                     |
| Marketing                                       | 16,685           | 21,530           | (4,845)         | (23)            |                                                                     |
| Motor vehicle expenses                          | 33,336           | 51,350           | (18,014)        | (35)            |                                                                     |
| Postage, telephone and fax                      | 123              | -                | 123             | -               |                                                                     |
| Refreshments                                    | 27,159           | 76,650           | (49,491)        | (65)            |                                                                     |
| Repairs and maintenance                         | 233              | 3,680            | (3,447)         | (94)            |                                                                     |
| RSC levies                                      | 1,462            | 3,680            | (2,218)         | (60)            |                                                                     |
| Stationery and printing                         | -                | 5,250            | (5,250)         | (100)           |                                                                     |
| Stationery - promotional                        | 1,305            | 3,360            | (2,055)         | (61)            |                                                                     |
| Subscriptions                                   | 6,705            | 6,300            | 405             | 6               |                                                                     |
| Training and development                        | 1,010            | 8,400            | (7,390)         | (88)            |                                                                     |
| Travel and subsistence                          | -                | 5,250            | (5,250)         | (100)           |                                                                     |
| Uniforms                                        | 821,986          | 1,149,490        | (327,504)       | (28)            |                                                                     |
| <b>Total expenditure</b>                        | <b>(112,491)</b> | <b>(406,740)</b> | <b>294,249</b>  | <b>(72)</b>     |                                                                     |
| <b>Net deficit for the year</b>                 |                  |                  |                 |                 |                                                                     |

CENTENARY HALL PROMOTIONS  
Trading as CENTENARY HALL  
(ASSOCIATION INCORPORATED UNDER SECTION 21)

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

Grant and Subsidies received

| Name of grant | Name of municipal entity        | Annual Receipts | Annual Expenditure | Grants and subsidies delayed/ withheld | Reason for delay/ withholding of funds | Did your company comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for non-compliance |
|---------------|---------------------------------|-----------------|--------------------|----------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------|
| NMBM Grant    | Nelson Mandela Bay Municipality | 55,460          | 55,460             | -                                      | Not applicable                         | Yes                                                                                                                 | Not applicable            |
|               |                                 | 55,460          | 55,460             | -                                      |                                        |                                                                                                                     |                           |