



Annual Report of the
Khayelitsha Community Trust
for the 2006/07 Financial Year



Khayelitsha Community Trust

committed to the development of
Khayelitsha and it's people



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CHAPTER 1: INTRODUCTION & OVERVIEW

CHAIRPERSON'S REPORT

It is my pleasure to table this very first chairperson's report, reflecting the road travelled by the majority of the current Trustees.

Introduction of the Municipal Systems Act (Act 117 of 1998) and Municipal Finance Management Act (Act 56 of 2003), warranted that the original Trustees, who were all councillors at the time, should resign as the act did not allow them to serve on the Trust. We were excited to be appointed as we are committed to contributing to the upliftment of the marginalised communities in Khayelitsha. This transition provided the new Trustees with a number of challenges as most of the agreements for Phase One had been agreed upon and the City's representatives (Property Management) had played a leading role and served as an adviser to different service providers with no staff complement.

The Trustees had been inundated with catching up on various projects that were implemented and the challenge was their inability to change some of the decisions made, as such decisions were not promoting the primary objectives of the Trust.

The Trust had been confronted with lack of funding for operations and this serious constraint caused delays in enabling the Trust to be fully functional.

OBJECTIVES OF THE KCT

The overall objective of the KCT is the upliftment of Khayelitsha through the development of, inter alia, the Khayelitsha Business District (KBD). This is to be achieved by KCT in the following manner:

- i) To acquire the land and development rights
- ii) To establish a development entity/entities to implement the development;
- iii) Through and with other parties, procure community facilities;
- iv) Through and with other parties, procure the promotion, facilitation and support access to the land and use of the land;
- v) To procure the management of the business district;
- vi) To introduce and implement an empowerment strategy;
- vii) To raise funds to achieve the above
- viii) To determine the terms and conditions and manner in which surplus funding will be distributed/ invested.

We have been able to affirm relationships built by the initial trustees with different stakeholders, such as Khayelitsha Development Forum as the primary beneficiary of all the benefits accruing for the Trust on behalf of all Khayelitsha citizens. We also forged a relationship with Urban Renewal program, as Khayelitsha is within the Presidential Node and established strategic linkages with projects such as Violence Prevention through Urban Upgrade, in terms of taking ownership of all assets handed over after the construction phase.

The Trust has also forged relationships with different financial institutions, who have undertaken this journey of developing the area with the Trust, such as Development Bank of South Africa for feasibility study of the CBD and for funding set up costs, and Rand Merchant Bank, who have demonstrated their confidence in such a project in an area characterised as "high risk" within the banking sector. We wish to express our sincere gratitude to RMB as they have been able to demonstrate to the banking sector that one can yield returns in such investments even in the previously marginalised communities.

ACHIEVEMENTS THUS FAR:

We have conducted various strategic planning meetings, which enabled the Trustees to have a better understanding of all the projects under construction and began to have a sense of ownership of the processes.

The Trust has achieved the following milestones:

- Signed all agreements related to the projects such as Retail Centre, Housing Project,
- Supported the construction of the District hospital in Khayelitsha, within our precinct.
- Completed the construction of the Retail Centre and negotiated with the City of Cape Town more public funding for infrastructure (Electricity, Landscaping, Parking, bulk services, etc).
- Set up committees to support Trust functions (Finance, Audit, Remuneration and Management).
- Appointed service providers such as Marketing and Public Relation, accounting and legal services.
- Appointed Advent Facilities Managers for the Retail Centre.
- Appointed Khayaletu Projects for the housing show village.
- Appointed the CEO for the Trust and identified offices for the Trust's operations.

WAY FORWARD:

We are proud to announce that the following actions will take place within the new financial year

- Increase the staff complement in order to manage various Trust projects.
- Finalise the development of a Petrol Service Station through the selection of the service providers.
- Conduct a road show to promote acquisition of part ownership of the retail centre by Khayelitsha residents.
- Seek more financial support for completion of phase one.
- Plan development framework for phase two.

I wish to thank all my fellow Trustees for making possible all the achievements reached thus far.

We are also proud of the selection we have made of our new CEO. She has been a driving force to achieve some of the milestones mentioned above and we are looking forward to her continued support towards the development of Khayelitsha for its residents, in line with our slogan "Committed to Development of Khayelitsha and its People".

Thank you.

Bulelwa Belu-Toni
Chairperson



BACKGROUND

Trust is a relationship of reliance. A trusted party is presumed to seek to fulfill policies, ethical codes, law and their previous promises.

Trust does not need to involve belief in the good character, vices, or morals of the other party. Persons engaged in a criminal activity usually trust each other to some extent. Also trust does not need to include an action that you and the other party are mutually engaged in. Trust is a prediction of reliance on an action, based on what a party knows about the other party. Trust is a statement about what is otherwise unknown for example, because it is far away, cannot be verified, or is in the future.



Khayelitsha is a partially informal township in South Africa, on the outskirts of Cape Town in the Cape Flats. The name is Xhosa for Our New Home.

The Group Areas Act, passed in the 1950s, prohibited Blacks from living in the cities. The discrimination and black population control by the apartheid regime did not prevent blacks from settling in the outskirts of Cape Town. After the scrapping of pass laws in 1987 many blacks, mainly Xhosas, moved into areas around Cape Town in search of work. By this time many blacks were already illegally settled in townships (black neighbourhood) like Nyanga and Crossroads. As the black population grew, the apartheid regime sought to solve the problem by establishing new black neighbourhoods. Khayelitsha was established in 1985. The Western Cape was a preference area for the local coloured population and a system called influx control was in place preventing Xhosas from traveling from the Transkei without the required permit. After the historic 1994 elections hundreds of thousands moved to urban areas in search of work, putting up shacks made of tin, wood and cardboard - this is one of them.

Apartheid is over, but its legacy - and the shacks, remain. Today Khayelitsha is home to between 500,000 and 1 million people, and runs for a number of kilometres along the N2. The ethnic makeup of Khayelitsha is approximately 90% Black African and 10% Coloured, with Xhosa being the predominant language of the residents.

Khayelitsha is today reputed to be the third largest[citation needed] township in South Africa, after the townships of Soweto in Gauteng and Mdanstane near East London. Since the ANC came to power in the country in 1994, the ruling party claims that living conditions in the township have improved markedly. There have been many developments such as new brick housing being built, new schools being built, and the creation of a central business district in the Township. However many residents strongly dispute the claim that the quality of life has improved. They claim that crime rates remain very high and that only a small portion of residents see improvements as a result of infrastructure and welfare interventions.



BOARD OF TRUSTEES

TABLE 1: DETAILS OF THE BOARD OF TRUSTEES:

BOARD MEMBER	CAPACITY	BOARD COMMITTEE MEMBERSHIP	RACE & GENDER
Ms. Bulelwa Belu-Toni	Non-executive	Trust Chairperson	Black Female
Mr. Mandla Maxongo	Non-executive	Trust Deputy Chairperson	Black Male
Prof. Mohamed Bayat	Non-executive	Trustee	Indian Male
Mr. John Biesman-Simons	Non-executive	Trustee	White Male
Mr. Anthony Coombe	Non-executive	Trustee	White Male
Ms. Xoliswa Daku	Non-executive	Trustee	Black Female
Mr. Mvuyisi Macikama	Non-executive	Trustee	Black Male
Mr. Sharif Pandor	Non-executive	Trustee	Black Male



TABLE 2: BOARD MEETING ATTENDANCE FOR PERIOD
01 JULY 2006 – 30 JUNE 2007:

BOARD MEMBER	ATTENDANCE	OUT OF
Ms. Bulelwa Belu-Toni	8	10
Mr. Mandla Maxongo	7	10
Prof. Mohamed Bayat	1	5
Mr. John Biesman-Simons	2	5
Mr. Anthony Coombe	4	5
Ms. Xoliswa Daku	3	10
Mr. Mvuyisi Macikama	3	10
Mr. Sharif Pandor	3	4

Mr. Sharif Pandor resigned from the Board of Trustees in January 2007 (date on certificate from the Master of the High Court for the resignation is 5 July 2007)

Prof. Mohamed Bayat, Mr. John Biesman-Simons and Mr. Anthony Coombe were appointed to the Board of Trustees in January 2007 (date on certificate from the Master of the High Court for the appointments is 12 June 2007)

TABLE 3: DETAILS OF THE AUDIT COMMITTEE

AUDIT COMMITTEE MEMBER	COMMITTEE MEMBERSHIP	ATTENDANCE	OUT OF
Mr. Anthony Coombe	Chairperson	1	7
Mr. John Biesman-Simons	Member	1	7
Ms. Xoliswa Daku	Member	1	7

TABLE 4: DETAILS OF THE REMUNERATION COMMITTEE

REMUNERATION COMMITTEE MEMBER	COMMITTEE MEMBERSHIP	ATTENDANCE	OUT OF
Ms. Bulelwa Belu-Toni	Chairperson	3	3
Mr. Mandla Maxongo	Member	3	3
Prof. Mohamed Bayat	Member	3	3

All meeting attendances are for the period 01 July 2006 – 30 June 2007



ROLE OF THE TRUST

The Khayelitsha Community Trust (KCT) was established by the City of Cape Town in 2003 as the vehicle to facilitate the development of the Khayelitsha Business District (KBD). This resulted in the City of Cape Town entering into an agreement ("Cooperation and collaboration" agreement) with Rand Merchant Bank (RMB) whereby RMB would secure the necessary private sector funding to initiate a phase 1 development in the KBD.

The KCT would serve as the vehicle to facilitate this development and to hold equity for the local community in the development.

The financial plan for phase 1 of the KBD development provided for a total development cost (private and public funding) of approximately R 415 million. R 265 million of this has been sourced and secured from the private sector by RMB in accordance with the Collaboration and Cooperation Agreement, to provide for the following approved commercial projects:

- Retail centre
- Residential (comprising 1200 units)
- Municipal offices
- Service station

KBD DEVELOPMENT (PHASE 1)

The development plan for phase 1 of the KBD development (as approved by Council on 04/03) includes the following:

- Retail centre
- Service station,
- Municipal offices,
- Public sector offices and facilities,
- Private sector offices and buildings,
- A multi-purpose community centre,
- Informal trading places
- Sport facilities,

- Residential units,
- A bus and taxi terminus,
- Landscaping, public spaces and greening
- Bulk services, road and other infrastructure

OBJECTIVES OF THE TRUST FOR 2006/07

- To ensure compliance by the Trust with all relevant corporate governance and legislative requirements
- To establish an effective working environment
- To facilitate the upgrading of bulk electricity supply in the KBD
- To facilitate affordable residential development in the KBD
- To update the development plan and operational and decision-making framework for the KBD
- To initiate the development of new municipal offices in the KBD
- To initiate the development of a service station in the KBD
- To initiate integrated CBD management within the KBD
- To initiate an empowerment strategy and programme for the community of Khayelitsha within the development of the KBD



ALIGNMENT WITH THE CITY OF CAPE TOWN'S INTEGRATED DEVELOPMENT PROGRAMME (IDP)

The development of the Khayelitsha Business District (KBD) is closely aligned to the City of Cape Town's strategic focus areas as expressed in the City's Integrated Development Plan (IDP). The KBD development relates to these focus areas as follows:

ECONOMIC DEVELOPMENT AND JOB CREATION

The KBD development plan provides for the initial appointment of empowerment consultants as well as providing for the following appointments:

- A contractor for the upgrade of the bulk electricity supply
- A consultant to provide a revised development plan for the KBD
- A consultant to investigate and make strategy proposals for intergrated CBD Management

INTEGRATED ACCESS AND MOBILITY

The development of the KBD adjacent to the Khayelitsha rail station, the extension of the Khayelitsha rail corridor and the establishment of a transport interchange and the provision of housing within the KBD node provides for improved mobility and accessibility for the people of Khayelitsha to community facilities and economic opportunities.

BUILDING INTEGRATED HUMAN SETTLEMENTS

The KBD development is based on an integrated development plan providing for economic, public and community facilities, housing, transport, leisure and sport activities.

BUILDING STRONG COMMUNITIES

The integrated model of the KBD development provides for various public facilities in support of health and social development. The Department of Social Welfare and Poverty Alleviation was one of the first public buildings to be established in the KBD. Discussions with the Provincial Administration to establish a regional hospital in the KBD are also at an advanced stage.

The Empowerment programme introduced by the Trust supports and facilitates the involvement of local entrepreneurs in the development of the KBD.

EQUITABLE AND EFFECTIVE SERVICE DELIVERY

The appointment of the KCT CEO, the establishment of an effective working environment, and the relocation of the municipal offices to the KBD as part of the KBD development will aid in the improvement of service delivery to the community of Khayelitsha.





CHAPTER 2: PERFORMANCE REPORT

KCT set certain targets in order to achieve its overall objective for the upliftment of the community of Khayelitsha. Progress in reaching targets was made in the following areas:

PUBLIC INVESTMENT

The public sector has been very cooperative and active in investing in the KBD since the inception of this project. More than R50 million of public sector funding has already been invested in the KBD area to provide for:

- Bulk services and road infrastructure provided to approximately 75% of the Property
- Regional magistrates offices,
- Offices for the Department of Social Welfare
- Offices for the Department of Home Affairs
- Swimming pool complex
- Cricket oval and clubhouse facility
- Phase 1 – transport interchange
- Phase 1 of landscape plan (public walkways and civic square)
- Phase 1 of informal trading facilities
- Multi-purpose centre (currently under construction)

The public investment will be boosted by an additional R100 million with the location of a District Hospital in the KBD in 2008/09.

RESIDENTIAL DEVELOPMENT

The concept and model provides for a mix of single and double storey 1, 2 and 3 bedroom units.

Since the concept is relatively new to the local residents, it was decided that a show-village, consisting of 14 units and which will include all the unit types, would be constructed.

MUNICIPAL OFFICES

This project is closely linked to the City's restructuring and deployment strategy for integrated service centres. The facility will be constructed by Khayelitsha Business District Management Company (KManco) and made available to the City on a lease-back basis. KManco has held meetings with office design consultants for the planning phase. Construction of this project is expected to commence during the 2008/2009 reporting period.

SUBSEQUENT EVENTS

- Construction of the show village commenced in August 2007
- R3,7m was paid for the purpose of upgrade of bulk electricity in July 2007



HUMAN RESOURCE AND OTHER ORGANISATIONAL MANAGEMENT

KCT has appointed its Chief Executive Officer, Mrs. Phindiwe Dingile. KCT is therefore in compliance with the requirements of an accounting officer as determined by section 93 of the MFMA. Mrs. Dingile commenced duties on the 1st October 2007.

Other appointments the KCT aims to finalise in the 2007/08 reporting period will be that of the finance manager and the administration clerk.

In November 2007, the objective of establishing an effective working environment was partly achieved through the establishment of a office for the KCT, separate from those of the City.

AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION

During the financial year under review the KCT received funds from the City of Cape Town amounting to R10, 023 208 in March 2007 to be utilised in support of the KBD development implementation. The KCT will continue to investigate alternative sources of funding especially for infrastructural (capital) related projects within the KBD.

The Trust ended the 2006/7 financial year with a surplus of R52 294. The surplus and deferred revenue from government grants reflected in the balance sheet must be spent in terms of the Service level agreement entered into with the City of Cape Town.



CHAPTER 2: PERFORMANCE REPORT

The following objectives were set by the Khayelitsha Community Trust for the reporting period of 2006/07:

1. To ensure compliance by KCT with all relevant corporate governance and legislative requirements. The trust aims to achieve this objective as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
01/04/07	Appointment of a CEO	R46,392	Rnil	The interview process for appointment of the CEO commenced in 06/07, and CEO commenced duties 10/07
01/05/07	Appointment of Secretarial support	R123,444	Rnil	Prolonged appointment of CEO caused delay in secretarial support appointment. This appointment is in process, to be finalised by 12/07.
01/07/07	Appointment of Project manager	Rnil	Rnil	
30/06/07	Legislative and government checklist for municipal entities - Auditing - Accounting - Legal consultants - Business processes	R363,271	R644,406	This amount includes payments to legal consultants for agreements and planning relating to other objectives with budget provisions stated below.

2. To establish an effective working environment for KCT. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/04/07	Renting of offices	R24,000	Rnil	Office lease concluded commencing 15/11/2007
30/06/07	Repair & maintenance	R50,000	Rnil	Office lease likely to be concluded commencing 15/11/2007
30/06/07	Taxation	R100,000	Rnil	KCT is currently seeking a tax directive on taxability of grant funding from the City, therefore no tax payment has been made to SARS
30/04/07	Operationalise office - Travel expenses - Printing & postage - Telephone costs	R24,500	R3,393	KCT has not had printing & postage and telephone costs due to lack of office
01/07/07	Remuneration policy for Trustees	R112,042	R69,794	Attendance at ad hoc meetings were not remunerated.

3. To facilitate the upgrading of bulk electricity supply in Khayelitsha Business District. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/07	Plans, approvals and legal documentation and construction agreements finalised for show village -Planning consultants -Legal consultants	R3,000,000	Rnil	An amount of R3,000,000 was paid in 07/07 for upgrade of bulk electricity.

4. To facilitate affordable residential development in Khayelitsha Business District. This to be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/02/07	Plans, approvals and legal documentation and construction agreements finalised for show village -Planning consultants -Legal consultants	R80,000	Rnil	Legal fees relating to the residential development is included in the total payment of R422,391 (amount included in Legislative and government checklist for municipal entities Under 1. above)
30/06/07	SDP, rezoning, approvals and legal documentation and construction agreements finalised for housing project. -Planning consultants -Legal consultants	R500,000	Rnil	Legal fees relating to the residential development is included in the total payment of R422,391 (amount included in Legislative and government checklist for municipal entities Under 1. above)

5. To update the development plan and operational and decision-making framework for Khayelitsha Business District. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/05/07	Appointment of consultants to provide revised development plan for KBD	R170,000	Rnil	Process has been delayed due to lack of staffing. Andre Human (City of Cape Town) is currently busy with the process of appointment of consultants.

6. To initiate the development of new municipal offices in Khayelitsha. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/07	Appointment of consultant for needs assessment	R50,000	Rnil	KManco director to have first meeting with the consultants currently appointed by the City in 11/07

7. To initiate the development of service station in Khayelitsha Business District. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/07	Contractual arrangement with oil company	R50,000	Rnil	Preliminary discussions have been entered into with oil companies to test the viability of and interest for this development.

8. To initiate integrated CBD management within Khayelitsha Business District. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/07	Appointment of consultant to investigate and make strategy proposals	R120,000	Rnil	Process has been delayed due to lack of staffing. Andre Human is currently busy with the process of appointment of consultants

9. To initiate empowerment plan and programme. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/07	Initiate appointment of empowerment consultants	R100,000	Rnil	Process has been delayed due to lack of staffing. Process to be in place for the 07/08 year.

10. To improve communication with relevant stakeholders. To be achieved as follows:

BUDGET DATE	PERFORMANCE INDICATORS	2006/07 BUDGET PROVISION	2006/07 ACTUAL EXPENDITURE	REASON FOR VARIANCE AND REMEDIAL ACTION
30/06/08	Formalise marketing strategy and appointment of marketing consultants	R150,000	Rnil	Marketing consultants were appointed 10/07

During the 2006/07 reporting period, a Service Delivery Agreement was signed between the City of Cape Town and the KCT. This agreement was a prerequisite by the City in order to transfer funding of R10 023 208 to the KCT and the purpose of the agreement is to ensure compliance by KCT with the MFMA.

LEGISLATION COMPLIANCE

- The KCT does not have a bank account in its name as required by the MFMA – Sections 85(1) to (3). The trust is currently using Mallinicks' Nedbank prosaver account. The bank account will be opened in the name of KCT once the Financial Manager is appointed.
- There was a change in the total number of Trustees of the KCT. One Trustee resigned and 3 new Trustees were appointed. The appointments and resignations were lodged with the High Court and certificate of resignation was lodged with the City of Cape Town
- KCT keeps full and proper accounting records, as are necessary to fairly present the state of affairs and business of the municipal entity as required by the MFMA – Section 95(b).
- The Trustees remuneration matters are disclosed in the annual financial statements.
- KCT maintains effective, efficient and transparent systems of financial, risk management and internal control
- Due to the fact that operations of the KCT are not large enough to warrant an Internal Audit Unit as required by section 165 of the MFMA, the KCT has applied for exemption from this section with the National Treasury. The City's Internal Audit Unit will also be utilised to assist the KCT in determining how to overcome this matter.
- The KCT maintains a management, accounting and information system that accounts for proper assets and liabilities of the management systems of the Trust.
- The KCT has processes in place to ensure that irregular, fruitless and wasteful expenditure and other losses are prevented.
- The KCT has a system of expenditure control including procedures for the approval, authorisation, withdrawal and payment of funds as required by section 99 of MFMA.
- The KCT has adapted the Supply Chain Management (SCM) Policy of the City of Cape Town and contracts of the KCT are procured through this SCM Policy.
- The KCT submitted a budget to the City of Cape Town as required by the MFMA and the budget was approved by the City
- Due to the fact that the finalisation of the appointment of the Accounting officer took place after the 2006/07 reporting year, the Delegations Document has not been finalised. The document will be finalised by the Accounting officer in the 2007/08 reporting year.
- The KCT has scheduled to hold its AGM for the 2006/07 reporting in January 2008 where the Trustees report and the annual reports for 2005/06 and 2006/07 will be tabled
- The AFS of the KCT disclose information on all allocations received from the City as required by section 123 of the MFMA.
- The KCT submitted its AFS for audit within two months after the financial year end
- The KCT established an Audit Committee in the 2006/07 financial year and the Audit Committee was approved by Council.
- The KCT appointed a CEO in October 2007.





REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL
PARLIAMENT ON THE SEPARATE FINANCIAL STATEMENTS
AND PERFORMANCE INFORMATION OF THE KHAYELITSHA
COMMUNITY TRUST FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the accompanying financial statements of the Khayelitsha Community Trust 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 7 to 21.

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 Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:

- designing, implementing and maintaining internal control 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) (PAA) and section 126(3) of the MFMA, 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 control 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 control.

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 Khayelitsha Community Trust 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 municipal entity'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 AUDIT OPINION

10. Taxation

Paragraph (h) of the definition of "gross income" in section 1 of the Income Tax Act, 1962 (Act.No. 58 of 1962) includes leasehold improvements on land or buildings owned as gross income.

The taxation liability provided in the financial statements and the disclosure in note 15 to the financial statements relating to the potential taxation liability on government grants did not include any reference or amount for taxation on leasehold improvements.

The cost of leasehold improvements made on the land owned by the trust amounted to R89,5 million and the potential tax thereon amounts to R35,8 million.

11. Value-added tax (VAT)

Grants paid by a municipality to a municipal entity are taxable at the standard rate of 14% as it fell outside of the 'grant definition per section 1 of the Value-Added Tax Act, 1991 (Act No. 89 of 1991) (VAT Act).





As the Khayelitsha Community Trust was in the process of clarifying the need to register for VAT, the uncertainty regarding VAT registration was disclosed in note 15 to the financial statements. The disclosure in this note only dealt with the potential VAT claimable (input VAT) and did not include the potential liability of, on grants received from, the municipality.

The potential VAT payable in terms of the amendments to the VAT Act with effect from 1 July 2006, should the trust register for VAT, was calculated at R1,2 million.

OPINION

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the separate financial statements present fairly, in all material respects, the financial position of the Khayelitsha Community Trust 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.

EMPHASIS OF MATTERS

I draw attention to the following matters:

Significant uncertainty

13. Interest in subsidiaries

As reported in paragraph 12 of the prior year's audit report, a legal opinion obtained from the National Treasury indicated the following:

When KBD Management (Pty) Ltd was established there was no law prohibiting the establishment of corporate bodies by municipal entities, while the Local Government: Municipal Systems Amendment Act, 2003 (Act No. 44 of 2003), in its transitional arrangement, made no provision for either the disestablishment or the continued existence of such corporate bodies as may have been established by municipal entities prior to it coming into effect.

It would seem that the intention of the legislature was never to have a municipal entity owning a corporate body. This was evident from the provisions of section 93K of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which specifically prohibits a municipal entity from establishing, and even acquiring, an interest in such a corporate body. The fact that KBD Management (Pty) Ltd was established prior to the latter legislation does not make its non-compliance right and the trust needs to review this position.

BASIS OF ACCOUNTING

14. Consolidation

As reported in paragraph 14 of the prior year's audit report, in terms of a legal opinion obtained from the National Treasury, no legal basis existed for the consolidation of the financial statements of the trust and its wholly owned investments as disclosed in paragraph 6 of the report of the trustees. However, due to the fact that the trust was a municipal entity as set out in section 31(2) of the Local Government: Municipal Systems Amendment Act, 2003, its financial statements should be prepared in accordance with the identified basis of accounting (note 1.1 of the financial statements). In terms of IAS 27, paragraph 13, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. The financial statements of the wholly owned investments should therefore be consolidated with those of the trust.

Details of the financial results from draft consolidated financial statements for KBD Management (Pty) Ltd for the year ended 30 June 2007, are summarised below:

Total assets	Total liabilities	Total revenue	Total expenditure
R93 644 605	R98 876 835	R 19 706 919	R 22 117 114

The financial statements presented for audit purposes did not include the results of the group, but only those of the separate entity (the trust). The investments were accounted for as a normal investment in these financial statements. Consolidated financial statements, which included the results of both the group and the separate entity (the trust), have not been presented for audit purposes to date.

OTHER MATTERS

I draw attention to the following matters which are ancillary to my responsibilities on the audit of the financial statements:
Non-compliance with applicable legislation

MSA:

15. As disclosed in note 20 to the financial statements, a chief executive officer was not appointed during the year under review as required by section 93J of the MSA, as this position was only filled from 1 October 2007.



MFMA:

16. During the year under review the following requirements of the MFMA were not complied with:

- Section 93 - no accounting officer as no chief executive officer was appointed as reported above.
- Sections 95 to 100 - no written internal control systems.
- Section 166(4)(b) - audit committee only met once during the financial year, as it was only appointed in the 4th quarter of the year. e.g Sections 95(c)(1i) and 165 - no internal audit function (as disclosed in note 20 to the financial statements).
- Section 121 - no annual report for 2004-05 or 2005-06.
- Section 125(2) - not all cases of non-compliance with the act were disclosed in the financial statements.

MATTERS OF GOVERNANCE

17. Audit committee

In terms of section 166 (2) of the MFMA an audit committee is an independent advisory body which must advise the board of trustees, the accounting officer and management staff of the municipal entity, on matters relating to a number of issues.

In view of the above and in terms of good corporate governance principles, the audit committee should comprise of non-trustees with

appropriate skills and expertise for the proper functioning of the audit committee. The provisions of section 166(4) of the MFMA are self-explanatory, hence appointment of trustee members, irrespective of the fact that they are not employees of the trust, will result in the independency and impartiality of the audit committee being questionable.

MATERIAL CORRECTIONS MADE TO THE FINANCIAL STATEMENTS SUBMITTED FOR AUDITING

18. The financial statements, approved by the trustees and submitted for auditing on 30 August 2007, have been significantly revised in respect of the following misstatements identified during the audit:
Long-term liabilities and interest paid for the year were understated by R112425 (R102205: 2005-06) and R10220 (R5663: 2005-06), respectively, due to an error in the calculation of the fair value adjustment for long-term liabilities. This also resulted in the overstatement of R96 572 of the comparative figure for the fair value gain.

The normal taxation liability was overstated by R21 732 due to an incorrect calculation of taxation payable for 2005-06.

Trustee fees were understated by R12 471 as no provision was made for the meeting held on 18 June 2007.

The comparative figure for the contingent asset in respect of VAT was understated by R1 3 256 as the calculation included output VAT on the operating lease asset that was raised.

The contingent liability in respect of taxation was understated by R53 510 (R58 474: 2005-06) due to errors made in the contingent liability calculations.

INTERNAL CONTROL

19. Section 95(l)(c)(i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies existed in more than one internal control component.

REPORTING ITEM	CONTROL ENVIROMENT	ASSESSMENT OF RISK	CONTROL ACTIVITIES	INFORMATION AND ACTIVITIES	MONITORING
BASIS FOR QUALIFIED OPINION					
Taxation	•				
VAT	•				
Emphasis of matter					
SIGNIFICANT UNCERTAINTY	•				
Applicable basis of accounting:	•				
OTHER MATTERS					
Non-compliance with applicable laws and regulations	•				
Matters of governance	•				
Material corrections to the financial statements	•				

OTHER REPORTING RESPONSIBILITIES

REPORTING ON PERFORMANCE INFORMATION

20. I was engaged to audit the performance information .

RESPONSIBILITIES OF THE ACCOUNTING OFFICER FOR PERFORMANCE INFORMATION

21. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

RESPONSIBILITY OF THE AUDITOR-GENERAL

22. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the MSA.

23. 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.

24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

AUDIT FINDINGS (PERFORMANCE INFORMATION)

Performance information not received in time

25. I was unable to complete a review of the reported performance information that need to be included in the annual report, since the information was not received in time.

APPRECIATION

26. The assistance rendered by the staff of the Khayelitsha Community Trust and its service providers during the audit is sincerely appreciated.

Auditor-General

Cape Town

30 November 2007



AUDITOR-GENERAL



CHAPTER 3: REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR ENDED 30 JUNE 2007

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF TRUSTEES AND TO THE EXECUTIVE MAYORAL COMMITTEE AND COUNCIL FOR THE CITY OF CAPE TOWN.

We present our report for the financial year ended 30 June 2007.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee, consisting of the members listed below, was appointed by the Trust and condoned by the City of Cape Town in April 2007. Consequently, the Committee had only limited opportunity for oversight over internal controls and the financial statements for the year ended 30 June 2007. The Committee met once during the year under review.

NAME OF MEMBER	NUMBER OF MEETINGS ATTENDED
Mr. Anthony Coombe	1
Ms. Xoliswa Daku	1
Mr J Biesman-Simons	1

The Committee has met 3 times since the financial year end.

AUDIT COMMITTEE RESPONSIBILITY

The Committee has drafted its terms of reference for approval by the Board of Trustees. The Committee has acted, as far as possible, within its

draft terms of reference and the reporting framework of the Municipal Finance Management Act, No 56 of 2003.

REVIEW AND EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

The Committee has:

- Reviewed and discussed with the Auditor-General the audited annual financial statements for the year ended 30 June 2007 to be included in the annual report of the Trust;
- Reviewed management responses to the final management letter issued by the Auditor-General;
- Reviewed the appropriateness of accounting policies and practices; and
- Reviewed significant adjustments resulting from the annual audit.

EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL

Deficiencies and shortcomings in internal control and financial accounting as reported by the Auditor-General indicate that the internal checking and control measures did not function adequately in various respects during the year under review.

The Audit Committee has undertaken to monitor corrective action to ensure that internal checking and control measures are implemented, so as to improve the internal control environment.

QUALITY OF MANAGEMENT REPORTS

The Committee is of the view that the content and quality of monthly and quarterly management reports presented to management lack sufficient detail to enable users to adequately assess the current financial position of the Trust in comparison with plans and budgets. The reports therefore hinder management’s ability to make informed decisions.

NON-COMPLIANCE WITH LEGISLATION

The Committee draws attention to note 20 of the annual financial statements which sets out certain areas of non-compliance with legislation. The Trust is in the process of addressing each of these matters.

CONCLUSION

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements for the year ended 30 June 2007 and is of the opinion that the audited annual financial statements, read together with the report of the Auditor-General, should be accepted by the Board of Trustees and the City Council of the City of Cape Town.

Chairperson of the Audit Committee

AC Coombe
12 December 2007



CHAPTER 4: ANNUAL FINANCIAL STATEMENTS

THE KHAYELITSHA COMMUNITY TRUST

(Masters reference T3011/2003)

ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2007

Country of registration	South Africa
Trustees	B Belu-Toni (Chair) M V Macikama M Maxongo X E Daku A C Coombe R J Biesman-Simons M Bayat
Registered office	c/o Mallinicks Inc. 3rd Floor Granger Bay Court Beach Road V & A Waterfront Cape Town 8001
Accountants	Moores Rowland
Auditor	The Auditor-General
Controlling entity	The City of Cape Town

THE KHAYELITSHA COMMUNITY TRUST

ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2007

The reports and statements set out below comprise the annual financial statements presented to trustees:

Contents Page

Compilation Report of the Accountants	53
Report of the Auditor-General	?
Report of the Trustees	53
Statement of Financial Position	55
Statement of Financial Performance	?
Statement of Changes in Net Assets	57
Cash Flow Statement	?
Notes to the Financial Statements	58

APPROVAL AND STATEMENT OF RESPONSIBILITY

The trustees are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The accountants are responsible to compile the financial statements and related information, in accordance with the statement of International Standards on Related Services applicable to compilation engagements.

The trustees are also responsible for the trust's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the trustees to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the trustees have every reason to believe that the trust has adequate resources in place to continue in operation for the foreseeable future.

The financial statements which appear on pages 58 to 73 were approved by the trustees on 29 August 2007 and signed on their behalf by:

Trustee

Trustee

COMPILATION REPORT OF THE ACCOUNTANTS TO KHAYELITSHA COMMUNITY TRUST

On the basis of information provided by the trustees we have compiled, in accordance with the statement of International Standards on Related Services applicable to compilation engagements the annual financial statements of The Khayelitsha Community Trust set out on pages 58 to 73 for the year ended 30 June 2007.

These financial statements are the responsibility of the trust's trustees. We have not audited or reviewed these financial statements, and accordingly express no assurance thereon.

**Moore Rowland
Chartered Accountants (S.A.)**

**29 August 2007
Cape Town**

THE KHAYELITSHA COMMUNITY TRUST REPORT OF THE TRUSTEES for the year ended 30 June 2007

The trustees present their report for the year ended 30 June 2007. This report forms part of the financial statements.

1. General review

The trust was created under South African law in terms of the Khayelitsha Business District Project, by the City of Cape Town for the benefit of the residents of Khayelitsha. As a municipal entity it is governed by its trust deed and various South African legislation, specifically the Municipal Finance Management Act (MFMA), 2003.

The trust carries on the business of property and investment holding. There was no major change in the nature of the business during the year.

2. Financial results and distributions

The trust's surplus after taxation for the year amounted to R 46 186 (2006 : R 318 534).

3. Investment property

There have been no major changes in the investment property during the year or any changes in the policy relating to its use.

THE KHAYELITSHA COMMUNITY TRUST (CONTINUED)

4. Events subsequent to year end

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

5. Trustees

The trustees of the trust during the accounting year and up to the date of this report were as follows:

B Belu-Toni (Chair)

M V Macikama

M Maxongo

X E Daku

A C Coombe Appointed 12 June 2007

R J Biesman-Simons Appointed 12 June 2007

M Bayat Appointed 12 June 2007

S J Pandor Resigned 5 July 2007

6. Wholly owned investments

NAME	ISSUED CAPITAL (R)	% HELD		NUMBER OF SHARES	
		2007	2006	2007	2006
Direct	100	100	100	100	100
KBD Management (Pty) Ltd					
Indirect	300	100	100	300	300
KBD Retail Properties (Pty) Ltd					
KBD Housing (Pty) Ltd	300	100	100	300	300

THE KHAYELITSHA COMMUNITY TRUST

STATEMENT OF FINANCIAL POSITION

	NOTES	2007 R	2006 R
Assets			
Non-current assets		1 961 705	1 821 387
Investment property	2	1 634 196	1 634 196
Investment	3	100	100
Operating lease asset		327 409	187 091
Current assets		10 355 538	1 187 784
Trade and other receivables	4	297 846	24 678
Cash and cash equivalents	5	10 057 692	1 163 106
Total assets		<u>12 317 243</u>	<u>3 009 171</u>
Net assets and liabilities			
Net assets		395 663	349 377
Founding donation	6	100	100
Accumulated surplus		395 563	349 477
Non-current liabilities		11 591 118	2 279 011
Borrowings	7	1 236 413	1 124 012
Deferred revenue - government grants	8	10 150 191	961 652
Deferred tax	9	204 514	193 347
Current liabilities		330 462	380 683
Taxation		48 333	31 279
Trade and other payables	10	282 129	349 404
Total net assets and liabilities		<u>12 317</u>	<u>3 009 171</u>

THE KHAYELITSHA COMMUNITY TRUST

STATEMENT OF FINANCIAL POSITION

	NOTES	2007 R	2006 R
Revenue			
Rental income		140 318	140 318
Other revenue		881 159	3 716 880
Grant funding - City of Cape Town	8	834 669	2 775 794
Grant funding - Development Bank of SouthAfrica	8	-	495 000
Interest received		46 490	358 231
Fair value gain on borrowings		-	-
Total revenue		1 021 477	3 857 198
Expenditure			
		(947 070)	(3 332 747)
Accounting fees		126 654	26 558
Administration fees		88 014	26 810
Auditor's remuneration		81 050	39 750
Bank charges		-	35
Conference expenses		2 600	-
Consulting fees		-	631 082
General expenses		13 991	27 780
Infrastructure - electrical		-	1 903 312
Interest		112 401	61 953
Legal fees		422 391	616 467
Research		11 964	-
Secretarial fees		2 347	-
Travel - local		3 393	-
Trustees fees	11	82 265	-
Surplus before taxation		74 407	524 451
Taxation	12	(28 221)	(205 917)
Net surplus		46 186	318 534

THE KHAYELITSHA COMMUNITY TRUST

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 30 June 2007

	NOTES	FOUNDING DONATION R	ACCUMILATED SURPLUS R	TOTAL R
Balance at 01 July 2005 (as previously reported)		100	2 779	2 879
Correction of errors	13		28 064	28 064
Restated balance		100	30 843	30 943
Net surplus (restated)			318 534	318 534
Restated balance		100	349 377	349 477
Balance at 01 July 2006 (as previously reported)		100	125 328	125 328
Correction of errors	13	-	224 049	224 049
Net surplus			46 186	46 186
Balance at 30 June 2007		100	395 563	395 663

THE KHAYELITSHA COMMUNITY TRUST

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007**

1. Accounting policies

1.1 Basis of preparation

The financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Currently the recognition and measurement of principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following significant changes in the presentation of the financial statements:

Standard of GRAP	Replaced Statement of GAAP
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cash flow statements	AC118: Cash flow statements
GRAP3: Accounting policies, accounting estimates and errors changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement of principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following significant changes in the presentation of the financial statements:

i. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

- ii. The cash flow statement can only be prepared in accordance with the direct method.
- iii. Specific information has been presented separately on the statement of financial position such as:
 - (a) receivables from non-exchange transactions, including taxes and transfers;
 - (b) taxes and transfers payable;
 - (c) trade and other payables from non-exchange transactions;
- iv. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 – 15 of GRAP 1 has not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

The financial statements have been prepared under the historical cost basis.

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

1.2 Revenue recognition

The trust earns revenue from rental income.

Revenue from rental agreements is recognised in accordance with the accounting policy for operating leases.

Grant funding is recognised in accordance with the accounting policy for government grants.

Interest revenue is recognised in the statement of financial performance, using the effective interest rate method.

1.3 Leases

Leases of assets where the company assumes substantially all the benefits and risks of ownership are classified as finance leases. Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases.

Operating leases - lessor

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

Income for leases is disclosed under revenue in the statement of financial performance.

Contingent rentals are not accounted for on a straight-line basis, and are recognised as revenue when the amounts can be reliably measured.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

1.4 Investment property

Investment properties are held to earn rental income and appreciate capital value. Owner-occupied properties are held for production and administrative purposes. This distinguishes owner-occupied properties from investment properties. Investment properties are stated at cost less accumulated

depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of financial performance, any amounts in revaluation and other reserves relating to that investment property are transferred to retained earnings.

1.5 Investments

Non-current investments are shown at cost and adjustments are made only where, in the opinion of the trustees, the investment is impaired. Where an investment has been impaired, it is recognised as an expense in the period in which the impairment is identified. Investments are not revalued, as fair value cannot be determined at this early stage of development.

1.6 Government grants

Government grants are recognised when there is reasonable assurance that:

- the trust will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable. Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the statement of financial performance (separately).

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

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

1.7 Provisions

The present value of future payments for surplus lease properties under non-cancellable operating leases is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased property will be of no future benefit to the trust.

1.8 Significant judgements

In preparing the annual financial statements, the trustees are required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Taxation

Judgement is required in determining the provision for taxes due to the complexity of legislation. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The trust recognises liabilities and assets for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

1.9 Financial instruments

Initial recognition

Financial assets and liabilities are recognised when the trust becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of financial performance when there is objective evidence that the asset is impaired. The allowance recognised is measured as

the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the company, unless otherwise stated.

Trade and other payables

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

Loans receivable

Loans receivable are stated at amortised cost less impairment losses using the effective interest rate method by applying the interest rates determined on initial recognition. Cumulative interest is recognised in profit or loss on an effective rate basis over the period of the loan. Loans receivable which have no fixed repayment terms and bear no interest are stated at the amount initially recognised less impairment losses.

Bank overdrafts and borrowings

Bank overdrafts and borrowings are initially measured at fair value, which is the cash consideration received less transaction costs. Subsequently, bank overdrafts and borrowings are measured at amortised cost using the effective interest rate method. The amortised cost method results in the accrual of interest in each period by applying the effective interest rate implicit to the outstanding balance on the borrowings. Borrowings are reduced when repayments are made.

1.10 Going concern assumption

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

1.11 Presentation currency

These financial statements are presented in South African Rand.

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	<i>Restated</i> 2006 R
2. Investment property		
Cost less depreciation		
Balance at beginning of year	1 634 196	-
Additions	-	1 634 196
Balance at end of year	<u>1 634 196</u>	<u>1 634 196</u>
<i>Comprising of</i>		
Cost	1 634 196	1 634 196
Accumulated depreciation	-	-
	<u>1 634 196</u>	<u>1 634 196</u>
Investment property consists of land, being erf 58857 and 58858 (portion of erf 18730) Khayelitsha, measuring approximately 47,343 square metres in extent. A retail centre has been constructed on the land by the lessee. Ownership of the buildings will revert to the trust after the lease period of 20 years. The land had a fair value of R7 100 000 at 30 June 2007.		
The following amounts, included in the statement of financial performance, relate to this property:		
Rental income	<u>140 318</u>	<u>140 318</u>

	2007 R	<i>Restated</i> 2006 R
3. Investment		
Unlisted shares at cost	<u>100</u>	<u>100</u>
The trust holds 100% of the issued ordinary shares of the following company:		
	Shares at cost R	
Unlisted		
KBD Management (Pty) Ltd 100	<u>100</u>	<u>100</u>
	<u>100</u>	<u>100</u>
4. Trade and other receivables		
Accrued interest	327	5 816
Short term loans - refer note 16	297 519	18 862
	<u>297 846</u>	<u>24 678</u>
5. Cash and cash equivalents		
Nedbank - Corporate Saver Account	6 588	132 701
Nedbank - Corporate Saver Account	27 897	1 030 405
Nedbank - Corporate Saver Account	10 023 207	-
	<u>10 057 692</u>	<u>1 163 106</u>

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	<i>Restated</i> 2006 R
6. Founding donation		
Donation made - 2004	<u>100</u>	<u>100</u>
7. Borrowings		
Unsecured		
The City of Cape Town - at amortised cost	<u>1 236 413</u>	<u>1 124 012</u>
The liability bears interest at 10% per annum. The capital of R1 420 290 is repayable in annual instalments of R78 905, together with any interest due for the year, over 18 years, commencing on 30 November 2007.		
8. Deferred revenue - government grants		
Balance at beginning of year	961 652	1 834 134
Received during the year	10 023 208	2 398 312
Transferred to statement of financial performance	(834 669)	(3 270 794)
Balance at end of year	<u>10 150 191</u>	<u>961 652</u>
<i>Estimated expenditure in respect of grant funding:</i>		
Employment related expenditure	769 735	-
General expenditure	728 407	208 811
Contracting services	1 002 841	752 841
Projects	7 629 208	-
Capital expenditure	20 000	-
	<u>10 150 191</u>	<u>961 652</u>
The trust has an obligation to refund any unspent grant funding received from the City of Cape Town.		

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	<i>Restated</i> 2006 R
9. Deferred tax		
Balance at beginning of year	193 347	18 709
Movements during year attributable to:		
- Temporary differences	<u>11 167</u>	<u>174 638</u>
Balance at end of year	<u>204 514</u>	<u>193 347</u>
The balance comprises:		
- Fair value adjustments	73 551	118 511
- Operating lease asset	<u>130 963</u>	<u>74 836</u>
	<u>204 514</u>	<u>193 347</u>
10. Trade and other payables		
Accruals - professional fees	193 144	337 492
Accruals - trustees fees	82 265	-
Accruals - other	<u>6 720</u>	<u>11 912</u>
	<u>282 129</u>	<u>349 404</u>
11. Trustee fees		
<i>Non-executive</i>		
For services as trustees	<u>82 265</u>	<u>-</u>
12. Taxation		
South African normal tax		
- Current tax	17 054	31 279
- Deferred tax		
Current year	<u>11 167</u>	<u>174 638</u>
Tax for the year	<u>28 221</u>	<u>205 917</u>
<i>Reconciliation of rate of taxation</i>	%	%
South African normal tax rate	40.0	40.0
Adjusted for:		
- Disallowable expenditure (exempt income)	(2.1)	(0.7)
Effective rate	37.9	39.3

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

The trust is in the process of obtaining a tax directive from the South African Revenue Service (SARS), about the exempt tax status of the trust as a public benefit organisation as well as the income tax status of grant funding received from the City of Cape Town, which has been considered exempt for normal tax. Should the grant funding be found to be taxable, the trust would be liable for additional tax of R5 461 764. However, should the trust qualify for exempt tax status, it will not be liable for any income tax.

	GROSS R	TAXATION R	NET R
13. Correction of errors			
Operating lease rental income was incorrectly calculated in the 2005 and 2006 years and has been restated in terms of IAS17 Leases.	92 404	(70 027)	22 377
A fair value adjustment on the initial recognition of borrowings in the 2006 year has been restated in terms of IAS39 Financial Instruments.	358 231	(143 292)	214 939
Interest paid on borrowings in the 2006 year has been restated in terms of IAS39 Financial Instruments.	(61 953)	24 781	(37 172)
Rates expense of R263 895 paid on behalf of KBD Management (Pty) Ltd, was incorrectly expensed in the 2006 year and has been restated. Deferred revenue received on government grants was reduced accordingly.	-	-	-
Error in calculation of 2006 tax provision	-	23 905	23 905
Cumulative effect of corrections on opening retained income for the current year:	<u>388 682</u>	<u>(164 633)</u>	<u>224 049</u>
Cumulative effect of corrections on opening retained income for the prior year:	<u>46 773</u>	<u>(18 709)</u>	<u>28 064</u>

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	Restated 2006 R
14. Notes to the cash flow statement		
14.1 Cash generated by/(utilised in) operating activities		
Net surplus for the year before taxation	74 407	524 451
Adjustments for:		
Interest received	(46 490)	(87 855)
Interest paid	112 401	61 953
Net change in deferred revenue	9 188 539	(872 482)
Fair value adjustment on borrowings	-	(358 231)
Operating lease rental	(140 318)	(140 318)
	<u>9 188 539</u>	<u>(872 482)</u>
Movements in working capital (Decrease)/increase in trade and other payables	(67 275)	225 110
	<u>9 121 264</u>	<u>(647 372)</u>
14.2 Reconciliation of financial costs		
Charge in statement of financial performance	112 401	61 953
Adjustment for interest	(112 401)	(61 953)
	<u>-</u>	<u>-</u>
14.3 Reconciliation of taxation paid during year		
Charge in statement of financial performance	(28 221)	(205 917)
Adjustment for deferred tax	11 167	174 638
Movement in taxation balance	17 054	31 279
	<u>-</u>	<u>-</u>
14.4 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and cash equivalents	<u>10 057 692</u>	<u>1 163 106</u>

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	<i>Restated</i> 2006 R
15. Contingencies		
The trust is in the process of obtaining a tax directive from the South African Revenue Service (SARS), about the exempt tax status of the trust as a public benefit organisation as well as the income tax status of grant funding received from the City of Cape Town, which has been considered exempt for normal tax. Should the grant funding be found to be taxable, the trust would be liable for additional tax of:	(5 461 764)	(1 784 806)
However, should the trust qualify for exempt tax status, it will not be liable for any income tax.		
At year end the trust was not registered as a Value Added Taxation (VAT) vendor and is corresponding with the South African Revenue Service about whether registration is mandatory. Should the trust proceed with registration as a VAT vendor, the trust would be entitled to a cumulative VAT refund and a consequent reduction in related income and expenditure amounting to:	<u>795 540</u> <u>(4 666 224)</u>	<u>713 948</u> <u>(1 070 858)</u>

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007 R	<i>Restated</i> 2006 R
16. Related parties		
<i>Transactions with related parties:</i>		
Grant funding received - The City of Cape Town	<u>10 023 208</u>	<u>1 903 312</u>
<i>Balances owing by related parties:</i>		
KBD Management (Pty) Ltd	277 282	10 139
KBD Retail Properties (Pty) Ltd	17 930	7 271
KBD Housing (Pty) Ltd	<u>2 307</u>	<u>1 452</u>
	<u>297 519</u>	<u>18 862</u>
The loans are interest free.		
<i>Balances owing to related parties:</i>		
The City of Cape Town	<u>1 420 290</u>	<u>1 420 290</u>
The Khayelitsha Community Trust is the sole shareholder of KBD Management (Pty) Ltd.		
KBD Management (Pty) Ltd is the sole shareholder of KBD Retail Properties (Pty) Ltd and KBD Housing (Pty) Ltd.		
The Khayelitsha Community Trust is a municipal entity of the City of Cape Town.		

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

	2007	<i>Restated</i> 2006
	R	R

17. Commitments

Operating lease commitments

The future minimum rentals receivable under non-cancellable operating leases are as follows:

Not later than 1 year	140 318	140 318
Later than 1 year and not later than 5 years	561 271	561 271
Later than 5 years	<u>1 882 597</u>	<u>2 022 915</u>
	<u>2 584 186</u>	<u>2 724 504</u>

The trust has leased its land to KBD Management (Pty) Ltd for a period of 20 years 9 months, since 7 March 2005.

THE KHAYELITSHA COMMUNITY TRUST

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

18. Financial instruments

Fair values

The carrying amounts of cash and cash equivalents, receivables, payables and short term borrowings approximated their fair values due to the short term maturities of these assets and liabilities.

Liquidity risk management

The trust manages its liquidity risk by monitoring cash flows and ensuring that adequate cash is available or borrowing facilities are maintained.

Credit risk

The trust maintains cash, cash equivalents trade receivables and investments. The trust limits its counter party exposure arising from financial institutions by only dealing with well-established financial institutions of high credit standing. The trust does not expect any counter parties to fail to meet their obligations, given their high credit standing.

19. Comparative figures

Comparative figures have been restated for the correction of errors detailed in note 13.

20. Non-compliance with legislation

During the year under review, the following requirements of the Local Government: Municipal Systems Act, 2000 (MSA) and Section 93 of the Municipal Finance Management Act, 2003 (MFMA) were not complied with:

Section 93J of MSA and Section 93 of the MFMA - no chief executive officer. An appointment has been made since the year end.

Section 95(c)(ii) and 165 of the MFMA - no internal audit function. Application for exemption from this requirement has been made to National Treasury since the year end.



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Khayelitsha Community Trust

[committed to the development of Khayelitsha and it's people]

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