



A N N U A L R E P O R T 2 0 0 6

VISION AND MISSION

The South African Cities Network is:

- An established network of South African cities and partners that encourages the exchange of information, experience and best practices on urban development and city management.
- An initiative of the Minister for Provincial and Local Government and nine city municipalities, in partnership with the South African Local Government Association (SALGA).

The goals of the SA Cities Network are to:

- Promote good governance and management of South African cities.
- Analyse strategic challenges facing South African cities, particularly in the context of global economic integration and national development.
- Collect, collate, analyse, assess, disseminate and apply the experience of large city government in a South African context.
- Promote a shared-learning partnership between different spheres of government to support the governance of South African cities.

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MEMBERS

- Buffalo City Municipality (East London)
- City of Cape Town
- Ekurhuleni Metropolitan Municipality (East Rand)
- eThekweni Metropolitan Municipality (Durban)
- City of Johannesburg
- Mangaung Municipality (Bloemfontein)
- Msunduzi Municipality (Pietermaritzburg)
- Nelson Mandela Bay Municipality (Port Elizabeth)
- City of Tshwane (Pretoria)

PARTNERS

- Department of Provincial and Local Government (DPLG)
- South African Local Government Association (SALGA)





CHAIRPERSON'S MESSAGE



This report marks the fourth anniversary of the South African Cities Network (SACN). At the same time, South Africa's local government will enter its second phase of democratic governance. As we leave the local government establishment phase, a new generation of local government leaders will characterize the Board Members of the SACN.

I would like to thank my colleagues who have served on the SACN Board over the past four years, providing organizational direction and making solid contribution to the content of our work. Without their guidance, the SACN would be producing less relevant work that does little to support and provide strategic analysis of our cities.

I wish to welcome prospective Board Members that will be appointed by their respective member cities. Now that the SACN is a formidable force in city development, our responsibility is to ensure that we improve the quality of our information sharing and networking. We will rely on each others respective strengths to ensure that knowledge partnerships are built across the length and breath of our cities, secondary towns and regional centers.

The generosity and confidence displayed by our partners and donars throughout the years is astounding and I would like to express my sincere appreciation for their support.

I particularly would like to thank the Department of Provincial and Local Government and the South African Local Government Association for their help and guidance, as well as officials from Province and National Government Departments and the office of the Presidency.



The recently published second State of the Cities Report points to many of the opportunities and challenges that face South African cities in the next few years. Our aim is to make our cities and towns more productive, inclusive, sustainable and well governed, so as to contribute to the life and well being of our people and nation. I am confident that the SACN will continue to provide a solid platform for city partnerships that can help achieve these goals.



CHIEF EXECUTIVE OFFICER'S REPORT

The SA Cities Network (SACN) was established in 2002 by the Minister for Provincial and Local Government in collaboration with the mayors of the largest cities and the South African Local Government Association (SALGA), as Section 21 Company, with the mandate to:

- Promote good governance and management in South African cities;
- Analyse strategic challenges facing South African cities, particularly in the context of global economic integration and national development challenges;
- Collect, collate, analyse, assess, disseminate and apply the experience of large city government in a South African context; and
- Promote shared-learning partnerships between different spheres of Government to support the management of South African cities.

When the SACN was established, its founding principals expressed the need to generate and disseminate knowledge to member cities in particular (and democratic local government in general) as one of the key outputs and outcomes of all programmes and functions. In addition to ensuring that South African cities develop qualitative and realistic city development strategies, the founder members of the SACN recognized that any leap forward would be based on a clear understanding of the history of developmental local government and, importantly, its future direction.

In the first phase of its operations, the SACN positioned itself as both a source of information to leadership of South Africa's largest cities and as a facilitator

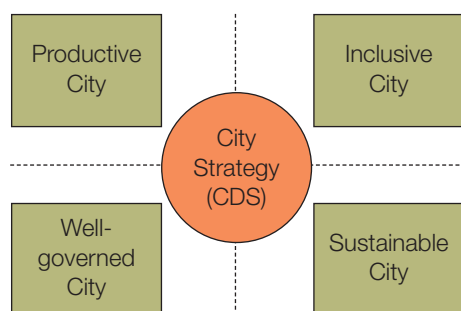
of debate. In South Africa's dynamic political and legislative environment there are many influences that will have a direct effect on the administration of cities. Between 2002/03 and 2005/06 the SACN successfully established itself as a credible organisation with the capability to identify, assemble and disseminate information that enhances the ability of decision-makers to learn from the experience of others and apply their resources to build sustainable cities.

The functions that SACN performed in this period were grouped into four broad focus areas:

- Strategic guidance;
- Knowledge management;
- Monitoring and evaluation; and
- Strategic Support.

In conducting its work, the SACN secretariat was guided by a programme framework that encouraged cities to define city development strategies that adopt a long term view on urban challenges. The SACN also promoted an inter-governmental approach to planning; and a strategic focus on mobilizing city partners. The objective of any city development strategy should be to ensure an integrated approach to development and economic growth in SA cities.

The SACN secretariat arranged its work around the four thematic quadrants that are aligned with the global urban development ideals. Within each quadrant a set of priority focus areas are selected to support current national government policy priorities.



The primary research product produced by the SACN is the State of the Cities Report, which presents a statistical and analytical update on cities' performance in delivering services, implementing policy priorities and achieving international and national goals and targets. The first State of the Cities Report was published in 2004 and the next will be launched in mid-2006.

The main knowledge-sharing products and services of the SACN include:

- Information exchanges (workshops, conferences, seminars, briefings, study visits, on-site learning)
- Training and capacity building (short courses, modules, toolkits)
- Frameworks and guidelines (analysis, vision, strategy, implementation)
- Research (databases, case studies, comparative analysis, scenarios)

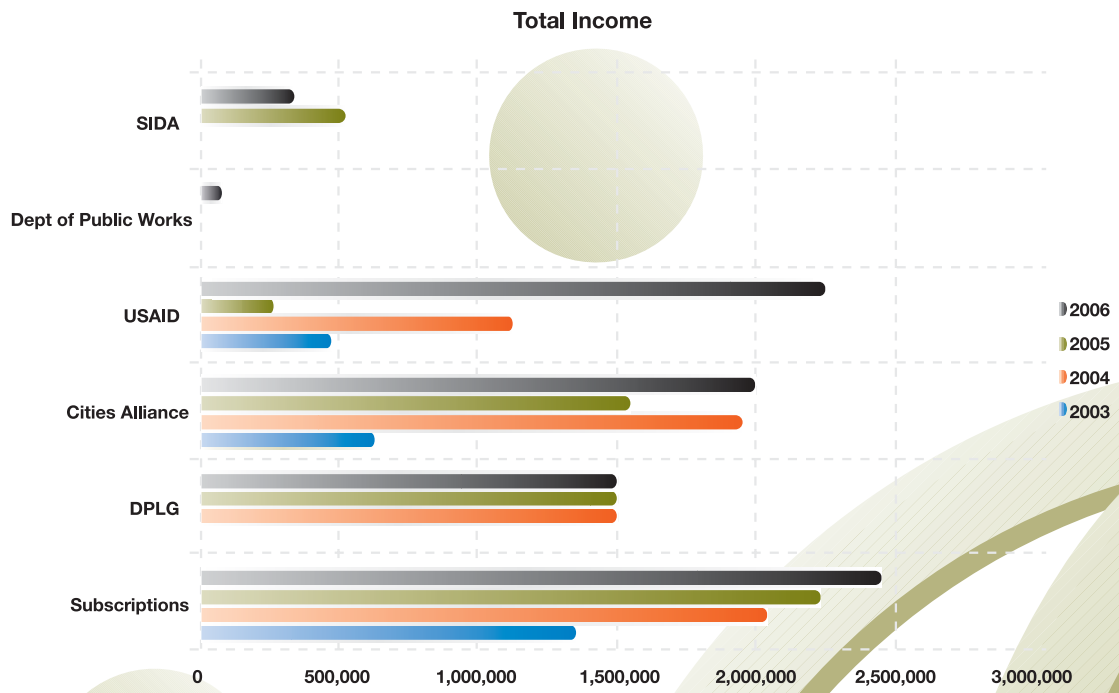
- Electronic exchanges (a monthly newsletter, events notification, calendar, contacts, member profiles, useful links)
- Peer Review (strategy, programme, sectoral, issues)
- Best practices and benchmarks (innovations, lessons)
- Technical support (secondments, coaching, mentoring, exchanges, consultancies)
- Networking (communities of practice, partnerships, meetings with key stakeholder groups)

From a qualitative perspective, the reach of the SACN has included:

	2003/04	2004/05	2005/06
Number of knowledge-sharing & networking events	6	17	21
Number of individuals attending networking events	230	620	860
Number of publications	2	4	7
Cumulative total of print of publications	1 500	2 000	4 000
Average number of people receiving e-newsletter every month	685	854	1 141
Number of impressions on website	-	158 891	231 200
Number of unique visitors to website	-	25 427	42 070



The SACN manages an average annual budget of R7 million. SACN revenue is sourced from subscriptions paid by member cities and from operational and programmatic grants made by DPLG, DBSA, the Cities Alliance, DANIDA and SIDA. In absolute terms, subscriptions have grown since 2002/03, while grant funding has been variable. This is because the grant allocations are determined by programmes and projects, such as the State of the Cities Report, with variable delivery timeframes.



	Subscriptions	DPLG	Cities Alliance	USAID	Dept of Public Works	SIDA
2006	2,450,250	1,500,000	1,991,821	2,240,522	76,119	337,082
2005	2,227,500	1,500,000	1,545,209	258,455		511,630
2004	2,025,000	1,500,000	1,938,025	1,122,900		
2003	1,350,000	0	622,554	468,600		



PROGRAMME OF ACTIVITIES

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During the previous financial year, Secretariat embarked on a process of restructuring its subject matter and thematic reference groups to focus on a holistic set of outcomes. The composition of Reference Groups now constitutes interests group from academia, sector national and provincial government departments and state owned enterprises. During the next financial year, private sector entities will become the main target and as reflected in this year's SACN Program and Institutional Review Report, this entire process has yielded results.

Hereunder follows an extract of some of our program activities:

AIDS ADVISE

Since conducting research on the impact of HIV & Aids in the last two years, it has become a priority within the South African Cities Network family to implement a national strategy designed to both build capacity to manage HIV & AIDS over the long term and deliver effective HIV & AIDS educational and support resources to every municipal employee. Aids Advise is a demand driven initiative by HIV & Aids Community of Practice implemented in conjunction with SALGA, the DPLG and Health Insite, supported by a private banking institution.

It is a comprehensive Guide for Local Government: Managing HIV & AIDS in the Municipal Workplace and has been developed as a template for effective HIV & AIDS management within municipal structures. Initiated in

January 2006, as a programme pilot phase, the Cities Network AIDS Advise programme has been introduced to all 9 SA Cities Network members. This phase was implemented to test utilisation and attitude of the programme and to gather specific adaptation and customisation specifications to ensure a relevant and appropriate programme to meet municipal workplace needs for the long term.

Local Economic Development Information Exchange Project Symposium

In collaboration with the International City/County Managers Association (ICMA), an economic development knowledge exchange programme with the City of Virginia Beach (CVB) in the United States. CVB like many South African cities had to overcome some challenges and a declining economy to become one of fastest growing economies in the US. This knowledge exchange programme began by representatives of CVB and ICMA visiting South Africa to participate in a productive cities reference group meeting followed by individual discussions with selected SACN cities. This process identified areas where the South African Cities could learn from experiences of CVB. This trip was followed by three SACN cities; Mangaung, Msunduzi and Buffalo City visiting CVB and Washington twice and their American counterparts visiting South Africa twice to engage and share experiences with a wide variety of role players in the economies of the selected cities. This exchange programme culminated in an LED symposium held in Buffalo City in April 2006.



Expanded Public Works Program (EPWP) Framework Guides

The first initiative involved collaboration with the department of public works to assist cities in implementing the Expanded Public Works Programme. Reference group meetings were facilitated mainly to exchange views on how best to implement EPWP in a holistic manner and to achieve the intended impacts. The discussions led to the development of a framework on interventions that need to be put in place in order that EPWP can be implemented well. These range from political support through identified political champions, setting up institutional frameworks appropriate to each cities circumstances and technical support mainly facilitated by DPW and the business trust. The results of these have not been realized yet as demonstrated by limited budgets spent on EPWP, limited number of skills and jobs. There is a realization that these desired impacts may be achieved in subsequent years but that a huge effort is still required to ensure that EPWP and its implications for implementation are well understood by all relevant departments at city level.

National Strategy for Sustainable Development

SACN is currently collaborating with the National Department of Environmental Affairs and Tourism which is in the process of developing a National Strategy for

Sustainable Development. This is being developed to help South Africa meet one of the requirements of the World Summit on Sustainable Development, Johannesburg Plan of Implementation which requires that all countries must prepare such a strategy. More importantly the strategy is being developed to guide sustainable development in South Africa considering the complex, multi-dimensional imperatives of sustainable development and the wide range of government, private sector and civil society stakeholders that have a critical role to play in realizing these imperatives. Considering that cities will have a significant role to play in implementing the NSSD, SACN facilitated engagement between DEAT and its cities to enable the cities to understand the process of developing the NSSD and to provide inputs to it. It has now been agreed that SACN will continue to facilitate this engagement until the implementation chapter is finalised.

Information Exchange & Network Seminars and Conferences

In the year to date, knowledge generation platforms and information exchange reports, outlining lessons learnt between and within member cities and other partner organizations, have been compiled and are obtainable through our web-site. The following seminars were held:



FAR LEFT:

Members of the Sustainable Cities Reference Group debating components of the SACN sustainable cities program. The reference group is composed of colleagues from DEAT, DME, CSIR, SEA and Wits University: an example of the inter-disciplinary nature of the SACN.

LEFT:

The SACN collaborated with the DPLG in evaluating the impact of IDP by hosting the IDP Hearings Session during one week in July 2005. Members of the panel included Adv. Graham Richards (SALGA) beside him, Elroy Africa (dplg), Ashraf Adams (planning consultant). Front left; In the front row from left to right are; Hassen Mohamed (Presidency), Sinazo Sibisi (Consultant) Oupa Mokoena (DBSA) and Nosipho Jezile (DEAT)

	Date	Information Exchange & Network Event
1	16 September 2005	Urbanisation and migration seminar
2	28-29 September 2005	SACN Urban development conference
3	31 October 2005	Implications of WC 2010 on CDS seminar
4	02 December 2005	HIV and Aids seminar
5	28 January 2006	Progressive urban policy colloquium
6	06 February 2006	Urban regeneration seminar
7	23 March 2006	Integrated water management seminar
8	03-04 April 2006	Local Economic Development symposium



LOOKING FORWARD

SACN's experiences have largely been positive. The organization has maintained good relationships with its stakeholders, and members, and has built a reputation for providing reliable information and sound advice. The key lessons from the first four years of operation include:

Positives	Negatives
Establishing the SACN increased the recognition that a differentiated approach to local government support is a necessary and critical ingredient for development	Failed to mainstream the argument that cities are socio economic and political engines, especially with political leadership in both primary and secondary cities
Created space and a platform for senior management and leadership to interact on urban development issues	The interaction platform has been more beneficial for administrators and there is scope to step up engagement with politicians
Thematic Reference Groups, including the Board, have proved to be broadly successful fora within which to foster debate	The composition and agendas for reference groups should be reconsidered in light of changing national urban development priorities
Launching the State of Cities Report in 2004 and other products provided an excellent set of quick wins	These products were launched without a predetermined knowledge sharing strategy, resulting in diluted impact
The SACN secretariat remains a financially solid and administratively sound entity	The networking function of the secretariat means that interventions need to be prioritized, and not all member cities' needs for support can be satisfied



In the medium-term period ahead (2006/07 – 2010/11) the SACN will position itself to focus on providing member cities with strategic guidance. It will continue to provide technical assistance and support, paying special focus to developing the knowledge and information management function to technically support urban policy priorities

Functional focus

In line with the proposed shift in the strategic objective, the classification of the SACN's functions can be rationalised into the following three categories of activity:

- a) Strategic guidance
- b) Monitoring and evaluation
- c) Technical assistance

These activities will be supported by a set of cross-cutting information and knowledge management activities.

Substantive focus

Given the continued relevance of the values that have defined the SACN's thematic focus areas, these are to be retained as the overarching classification system. As a second layer of prioritisation, the key national urban policy priorities defined in the Urban Development Framework have been included under these themes. These national urban policy priorities include economic growth, job creation, increased trade, increased public investment in infrastructure, extended access to social and economic services, efficiency in service delivery, improved public asset and resource management.



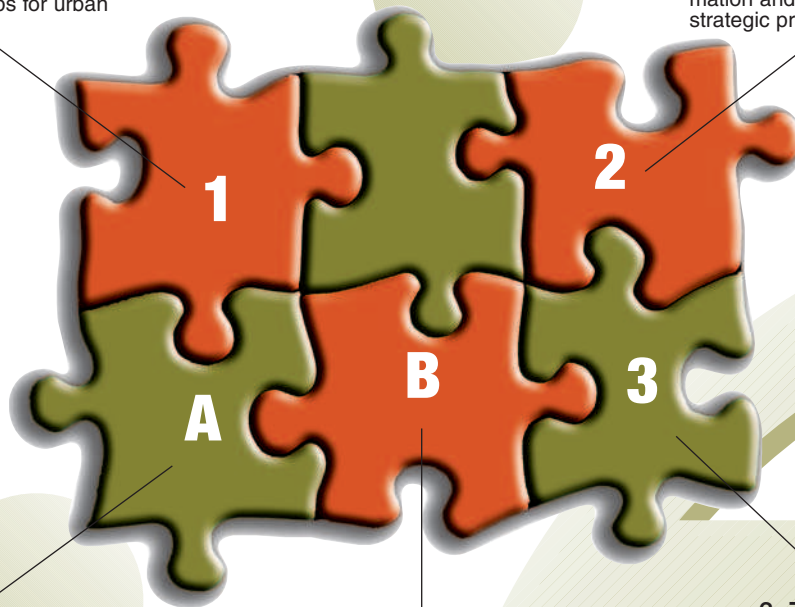
FUNCTIONAL FOCUS: 2006 - 2011

1. STRATEGIC ADVICE

Prepare strategic inputs to inform city positions on national policy priorities and implementation strategies for national priorities; and facilitate sessions with Decision-makers to establish collaborative relationships for urban development.

2. MONITORING & EVALUATION

Provide urban development information and knowledge to support strategic priorities.



A. STRENGTHENING THE NETWORK

Enhance credibility of the SACN through local and international interaction.

B. KNOWLEDGE PRODUCTION AND SHARING

Raise awareness and mainstream debates.

3. TECHNICAL ASSISTANCE

Provide advice and knowledge to support strategic urban priorities.



FAR LEFT:

HIV/AIDS Workshop Joburg

In September 2005 the City of Joburg hosted an SACN workshop aimed at developing guidelines for municipal responses to HIV and Aids. Joburg MMC; Councillor Thomas Phakathi was accompanied by the Joburg City Manager Mr. Pascal Moloï, Chief Operating Officer Ms Sibongile Mazibuko and the head of Occupational Health and Safety unit Mr. Thuli Van Der Watt to the cocktail dinner for the workshop.

LEFT:

Sithole Mbanga, CEO of the SACN, in discussion with eThekweni Mayor, Councillor Obed Mlaba during the Fifa 2010 World Cup Seminar held with hosting cities, held in October 2005.



Urban Conference

In writing the State of Cities Report 2006, the SACN held the National Urban Conference during September 2005. Delegates from a broad spectrum of government and non-governmental private sector State Owned Enterprises are seen participating and listening to various presentations.

BOARD OF DIRECTORS



Andrew Boraine

Chairperson



David Morema

Vice Chairperson



Mathew Moonieya

Buffalo City Municipality
(East London)



Sithole Mbanga

Chief Executive Officer



Wallace Amos Mgoqi

City of Cape Town



Elroy Ian Africa

Department of Provincial
and Local Government



**Lentheng Helen
"Ntombi" Mekgwe**

Ekurhuleni Metropolitan
Municipality
(East Rand)



Dr Michael Sutcliffe

eThekweni Municipality
(Durban)



Thabane Wiseman Zulu

Msunduzi Municipality
(Pietermaritzburg)



Christine Elizabeth Walters

City of Johannesburg



Vuyo Zitumane

Nelson Mandela Metro
(Port Elizabeth)



Mojalefa Joseph Matlole

Mangaung Municipality
(Bloemfontein)



Blake Mosley-Lefatola

City of Tshwane
(Pretoria)

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Annual Financial Statements for the year ended 30 June 2006

South African Cities Network (Association incorporated under Section 21)
(Registration No. 2002/031754/08)
(Non-profit organisation No: 032-488-NPO)

APPROVAL


The financial statements set out on pages 2 to 15 have been approved by the board of directors and are signed on its behalf by:


Chairperson


Chief Executive Officer

CERTIFICATE BY SECRETARY

I confirm that South African Cities Network (Association Incorporated under Section 21) has complied with all its statutory requirements.


13 October 2006



REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS

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South African Cities Network
(Association incorporated under Section 21)

We have audited the annual financial statements of the South African Cities Network set out on pages 2 to 14 for the year ended 30 June 2006. These financial statements are the responsibility of the directors, while our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2006 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Supplementary information

The schedule set out on page 15 has been attached for information purposes only and is not covered by the audit opinion.

Douglas & Velcich
Chartered Accountants (SA)
Registered Accountants and Auditors

13 October 2006



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

The directors present the attached annual financial statements and submit their report for the year ended 30 June 2006.

General review

In the 2005/6 financial year, South Africa's local government sphere will go into elections, effectively affirming that the country is finalising its public organisation transformation. Indeed and truly, the local government elections are likely to usher in a new breed of local government councillors and managers who will constitute the crucible of transformed cities, secondary towns and rural municipalities. These changes will not escape the South African Cities Network primarily because the board and leadership of the SA Cities Network is made up of city managers and councillors. Their mandates are, therefore likely to be changed in line with a dynamic

For those reasons, we are grateful to the first leadership generation of the SA Cities Network that saw the SACN throughout since its establishment in October 2002, for at least two reasons. Firstly, for providing the vision for the establishment of the SA Cities Network and secondly, for allowing themselves to become a test case for what is a necessary component of local government capacity building, that is, knowledge management. At the same time, a pleasant "welcome-on-board" to the new Board members that will become part of a SA Cities Network for the next phase of growth.

As this financial report reflects, you will be taking over an entity that has been managed with the highest level of vigilance and compliance. Yet, the Network has continued to be a flexible facilitator of inter-governmental relations between the three spheres of (national, provincial and local) government. The Department of Provincial and Local Government (DPLG) and the South African Local Government Association (SALGA) serve on the Board of the SA Cities Network knowing the strategic importance of continually interacting with decision-makers and practitioners both formally and informally through a network such as the SA Cities Network, among others. As a consequence, both DPLG and SALGA have played a critical role of providing programmatic guidance and facilitating international and national dialogue on cities and local government.

Credit must also go to our international partners. Through networking and sharing resources, we were able to extend the reach and scope of our work far beyond what could have been achieved had the SA Cities Network been working in isolation. Thank you to the Cities Alliance for their relentless support in helping us produce the second edition of the State of Cities Report, the Swedish Development Agency (SIDA) and the United States Agency for Development (USAID) for ensuring that the HIV & Aids project remains on the map.

Share capital and dividends

The company has no share capital and its memorandum and articles of association prohibit the payment of dividends to members.

Property and equipment

During the year under review, the company acquired equipment to the value of R98,014 (2005 - R53,499).

Statements of responsibility

The directors are responsible for the maintenance of adequate accounting records. The preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973.

The directors are also responsible for the company's systems of internal 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 directors 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 directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

Results for the year

The results of operations for the year are fully disclosed in the attached financial statements.

Post balance sheet events

No material fact or circumstance has occurred between the balance sheet date and the date of this report.

Board Members

SMM Mbanga
El Africa
AM Borraine
MJ Matlole
WA Mgoqi
DN Morema
BK Mosley-Lefatola
MO Sutcliffe
TW Zulu
V Zitumane (appointed 11 October 2005)
Municipality
LH Mekgwe (appointed 15 May 2006)
CE Walters (appointed 9 May 2006)
M Moonieya (appointed 20 February 2006)

ML Mangcotywa (resigned 11 October 2005)

TZ Phakathi (resigned 9 May 2006)
MB Tsika (resigned 20 February 2006)

Secretary

Secretarial services are performed by S Kalidas.

Auditors

During the year under review, Douglas & Velcich were retained as auditors.

Alternate Directors

LIM Molapo

MG Silwana
SA Fisher

N Pillay
S Cele
S Sethene
PS Ndoni

M Maseko
M Dlamini
S Maclean
JG Richards

Chief Executive Director
DPLG
Chairperson
Mangaung Municipality
City of Cape Town
Vice Chairperson
City of Tshwane
eThekweni Metropolitan Municipality
Msunduzi Municipality
Nelson Mandela Metropolitan

Ekurhuleni Metropolitan Municipality
City of Johannesburg
Buffalo City Municipality
SALGA
Nelson Mandela Metropolitan
Municipality
City of Johannesburg
Buffalo City Municipality



BALANCE SHEET AT 30 JUNE 2006

	Note	2006 R	2005 R
ASSETS		2,288,683	1,246,045
Non current assets		192,735	184,265
Equipment	3	192,735	184,265
Current assets		2,095,948	1,061,780
Accounts receivable		15,390	10,390
Accrued income	6	744,910	212,640
Cash at bank and on hand	4	1,335,648	838,750
Total assets		2,288,683	1,246,045
RESERVES AND LIABILITIES		2,288,683	1,246,045
Reserves		1,146,601	243,903
Accumulated funds		1,146,601	243,903
Long term liability		–	14,650
Instalment sale agreement	5	–	14,650
Current liabilities		1,142,082	987,492
Accounts payable		324,656	671,299
Provision for leave	6	55,348	48,123
Current portion of long-term liabilities		14,650	40,570
Deferred grant income	7	747,428	227,500
Total reserves and liabilities		2,288,683	1,246,045

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R	2005 R
INCOME		9,312,864	6,319,071
Grants	7	6,145,544	3,815,294
Interest received		128,377	58,979
Subscriptions received	8	2,450,250	2,227,500
Other income		588,693	217,298
EXPENDITURE		8,410,166	6,200,613
Secretariat Costs		2,888,667	2,967,586
Information Technology		337,851	339,854
Knowledge Management and Communications		508,770	320,867
Networking, Membership and Partnership		273,246	276,092
City Development Strategies		3,401,824	1,525,211
Productive Cities		711,725	104,763
Inclusive Cities		76,119	327,918
Sustainable Cities		4,722	–
Well Governed Cities		207,242	338,322
SURPLUS FOR THE YEAR		902,698	118,458

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 30 JUNE 2006

	ACCUMULATED FUNDS R	TOTAL R
Balance at 1 July 2004	125,445	125,445
Surplus for the year	118,458	118,458
Balance at 30 June 2005	243,903	243,903
Surplus for the year	902,698	902,698
Balance at 30 June 2006	1,146,601	1,146,601

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

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	Note	2006 R	2005 R
Cash inflows from operating activities	10	511,739	531,738
Interest received		128,377	58,979
Interest paid on finance lease		(4,634)	(15,849)
Net Cash inflows from operating activities		635,482	574,868
Cash flows utilised in investing activities		(98,014)	(23,542)
Acquisition of equipment		(98,014)	(53,499)
Proceeds from disposal		–	29,957
Cash flows utilised in financing activities		(40,570)	(29,537)
Decrease in long term liabilities		(14,650)	(24,492)
Decrease in current portion of long - term liabilities		(25,920)	(5,045)
Net increase in cash and cash equivalents		496,898	521,789
Cash and cash equivalents at beginning of year		838,750	316,961
Cash and cash equivalents at end of year		1,335,648	838,750

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis, except for financial instruments as indicated below. The financial statements incorporate the following principal accounting policies which are consistent, in all material respects, with those applied in the previous year:-

1.1 Accounting convention

The Association is registered under the Companies Act, 1973, as an association not for gain and as such no part of its income or property shall be transferred to members, directly or indirectly. All reserves of the Association are consequently non-distributable.

1.2 Equipment

Equipment is stated at cost less provision for depreciation. Depreciation is calculated to write off the cost of the equipment on the straight line method at the following rates:

Computer equipment	- 33.3% per annum
Office equipment	- 20% per annum
Furniture and fittings	- 20% per annum

1.3 Income recognition

Income from grants is generally brought to account in the period to which it relates.

All other income is brought to account as and when received.

Accrued grant income is income designated for the current year, but received after the financial year end. It is included in income and accounted for as a current asset.

Deferred grant income comprises income received in advance of the period to which it relates. It is excluded from income, and is accounted for as a current liability.

1.4 Financial instruments

Measurement

Financial instruments carried on the balance sheet include bank balances, accounts receivables and accounts payable. Financial instruments are initially measured at cost as at trade date, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

1. ACCOUNTING POLICIES (Continued)

1.4 Financial instruments (Continued)

Trade and other receivables

Trade and other receivables are stated at cost less provision for impairment losses.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payment and amortisations.

1.5 Provisions

Provisions are recognised when the company has a legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. MEMBERS' GUARANTEE

In terms of the Memorandum of Association, the subscribers to the memorandum guarantee to each contribute R1 in the event of the company being wound up. At the balance sheet date the guarantee value amounted to R9 (2005: R9).

3. EQUIPMENT

	Computer equipment R	Office equipment R	Furniture and fittings R	Total R
30 June 2006				
Net book value 30 June 2005	59,023	125,242	-	184,265
At cost	101,312	181,243	-	282,555
Accumulated depreciation	(42,289)	(56,001)	-	(98,290)
Additions during the year	45,463	45,836	6,715	98,014
Depreciation for the year	(48,440)	(40,992)	(112)	(89,544)
Net book value 30 June 2006	56,046	130,086	6,603	192,735
At cost	146,775	227,079	6,715	380,569
Accumulated depreciation	(90,729)	(96,993)	(112)	(187,834)
30 June 2005				
Net book value 30 June 2004	75,168	153,481	-	228,649
At cost	104,301	176,744	-	281,045
Accumulated depreciation	(29,133)	(23,263)	-	52,396)
Additions during the year	49,000	4,499	-	53,499
Depreciation for the year	(34,055)	(32,738)	-	(66,793)
Disposal at book value	(31,090)	-	-	(31,090)
At cost	(51,989)	-	-	(51,989)
Accumulated depreciation	20,899	-	-	20,899
Net book value 30 June 2005	59,023	125,242	-	184,265
At cost	101,312	181,243	-	282,555
Accumulated depreciation	(42,289)	(56,001)	-	(98,290)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

4. CASH AND CASH EQUIVALENTS

Nedbank Current account	927	211,974
Nedbank - 32 Day deposit	1,333,221	625,276
Petty cash	1,500	1,500
	<u>1,335,648</u>	<u>838,750</u>

5. INSTALMENT SALE LIABILITY

Nedcor Bank Limited	14,650	55,220
Less: Current portion of long term liability disclosed under current liabilities	<u>(14,650)</u>	<u>(40,570)</u>
	<u>-</u>	<u>14,650</u>

The above liability is secured by an instalment sale agreement over office equipment valued at R57,755 (2005 - R82,507). Instalments paid during the year ended 30 June 2006 amounted to R45,204. The liability has incurred interest at rates fluctuating between 12.5% and 15.5% per year.

6. PROVISION FOR LEAVE

Opening balance	48,126	83,85
Additions during the year	7,222	-
Utilised during the year	<u>-</u>	<u>(35,732)</u>
Closing balance	<u>55,348</u>	<u>48,126</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006 (continued)

7. GRANTS

USAID - MegaTech Grant 0152-0205-G-GA47

Received

Accrued in 2005

USAID - MegaTech Grant 0166-0106-G-GA54

Received

Accrued in 2006

Department of Provincial and Local Government

Department of Public Works

Received

Deferred to 2007

SIDA

Received

Deferred to 2006

Deferred to 2007

Cities Alliance - TA - PO81835 - TAS - TF051177

Received

Accrued in 2006

Cities Alliance - DGF: 202206-07

Received

Deferred to 2007

8. SUBSCRIPTIONS RECEIVED

Buffalo City Municipality

City of Cape Town

Ekurhuleni Metropolitan Municipality

eThekweni Metropolitan Municipality

City of Johannesburg

Mangaung Municipality

Msunduzi Municipality

Nelson Mandela Metropolitan Municipality

City of Tshwane

9. DIRECTORS' REMUNERATION

For managerial services

	2006 R	2005 R
USAID - MegaTech Grant 0152-0205-G-GA47	865,522	258,455
Received	1,078,162	45,815
Accrued in 2005	(212,640)	212,640
USAID - MegaTech Grant 0166-0106-G-GA54	1,375,000	—
Received	630,090	—
Accrued in 2006	744,910	—
Department of Provincial and Local Government	1,500,000	1,500,000
Department of Public Works	76,119	—
Received	150,000	—
Deferred to 2007	(73,881)	—
SIDA	337,082	511,630
Received	486,816	739,130
Deferred to 2006	227,500	(227,500)
Deferred to 2007	(377,234)	—
Cities Alliance - TA - PO81835 - TAS - TF051177	523,184	1,545,209
Received	304,052	1,545,209
Accrued in 2006	219,132	—
Cities Alliance - DGF: 202206-07	1,468,637	—
Received	1,764,950	—
Deferred to 2007	(296,313)	—
	<u>6,145,544</u>	<u>3,815,294</u>
Buffalo City Municipality	181,500	165,000
City of Cape Town	363,000	330,000
Ekurhuleni Metropolitan Municipality	272,250	247,500
eThekweni Metropolitan Municipality	363,000	330,000
City of Johannesburg	363,000	330,000
Mangaung Municipality	181,500	165,000
Msunduzi Municipality	181,500	165,000
Nelson Mandela Metropolitan Municipality	272,250	247,500
City of Tshwane	272,250	247,500
	<u>2,450,250</u>	<u>2,227,500</u>
DIRECTORS' REMUNERATION		
For managerial services	<u>685,920</u>	<u>500,000</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

10. COMMITMENTS

The company has commitments in respect of operating lease charges for premises and office equipment as follows :

Payable within one year

Payable thereafter

2006
R

72,000

132,000

204,000

2005
R

60,000

–

60,000

11. RECONCILIATION OF SURPLUS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES

Surplus from operations

Adjustment for :

– depreciation

– loss on disposal of assets

– interest received

– interest paid on finance lease

– increase in deferred income

– increase in accrued income

Operating cash flows before movements in working capital

902,698

89,544

–

(128,377)

4,634

519,928

(532,270)

856,157

(344,418)

(5,000)

(339,418)

511,739

118,458

66,793

1,133

(58,979)

15,849

227,500

(212,640)

158,114

373,624

73,000

300,624

531,738

(Increase)/decrease in accounts receivable

(Decrease)/increase in accounts payable

12. TAXATION

No provision for taxation has been made as the company has qualified for exemption from income tax in terms of section 10(1)(cN) as read with section 30 of the Income Tax Act.

13. GOING CONCERN

The existence of the company is dependent on the continued support of its donors, by way of grants. Should the grants be withdrawn it is highly unlikely that the company will be able to continue as a going concern. Donors have agreed to continue supporting the company in 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

14. FINANCIAL INSTRUMENTS

14.1 Currency risk

The company is exposed to currency risk to the extent that grants are received by the company in foreign currency.

14.2 Interest rate risk

The company is exposed to interest rate risk, as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rates and placings within market expectations.

14.3 Credit risk

The company's credit risk is attributable to accounts receivable, accrued income and liquid funds. The credit risk on liquid funds is limited because the counter party is a bank with credit rating assigned by international credit-rating agencies. The company has no significant concentration of credit risk.

14.4 Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash reserves are maintained.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006 (continued)

Expenditure

Secretariat Costs

Salaries

Office Consumables

Rent and services

Office refreshments

Office sundries

Postage and courier

Travel - local (staff)

Printing and stationery

Bank charges

Office insurance

Loss on disposal of assets

Depreciation

Telephone and cellphone

Internet

Financial and Legal Fees

Audit fees and other financial services

Interest paid on instalment sale agreement

Legal fees

Organisational Development

Organisational Development

Staff training and development

Networking and Strategic Input

Management and Board Meetings

Local and international conferences

Annual Report

Information Technology

City Development Strategies

Productive Cities

Inclusive Cities

Well Governed Cities

Sustainable Cities

Knowledge Management and Communications

2006
R

2,888,667

2,306,767

427,640

72,000

7,741

30,265

33,813

6,249

19,377

5,347

21,654

–

89,544

95,311

46,339

72,114

41,768

4,634

25,712

82,146

62,352

19,794

273,246

105,360

116,960

50,926

337,851

3,401,824

711,725

76,119

207,242

4,722

508,770

8,410,166

2005
R

2,967,586

2,197,721

512,164

72,000

5,519

27,906

34,813

59,429

46,052

7,013

23,167

1,133

66,793

112,135

56,204

57,713

16,128

15,849

25,736

199,988

167,164

32,824

276,092

86,092

121,901

68,099

339,854

1,525,211

104,763

327,918

338,322

–

320,867

6,200,613



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