

FOREWORD

The 2006-07 financial year marked the first full year of oversight by the newly elected Council. It is satisfying to note that, once again, the Municipality is free of any charges of financial abuse or corruption. All of the regular reports required by legislation are produced in a timely and professional fashion. Our strong reputation in this regard is the cornerstone of being able to attract funding for various initiatives over and above the set allocations from national government. There is always room for improvement, however. Compliance with all aspects of the implementation of the Municipal Finance Management Act 56 of 2003 remains a challenge. During the financial year, our capacity to do so was constrained by staff vacancies. Many of these have subsequently been filled, allowing for staff to make steady headway in implementing the new systems.

One of the areas of concern addressed during the year was administrative weakness in the handling of the municipal vehicle fleet. Interim measures were put in place, whilst long-term solutions are being sought. In our ongoing quest to ensure that all people who qualify for indigent subsidies get registered, we enlisted the help of temporary ward-based workers. Refinement of our systems to guarantee success remains one of our challenges in the new financial year. The Finance and Service Delivery Portfolio Committee dedicated itself to regular reviews of existing policies, monthly credit control meetings and appropriate workshops and training for councillors. The cleansing of old and unrecoverable debt is an ongoing task. However, we enjoyed a measure of success in collecting a sizeable portion of the debts owed to us by government departments.

In conclusion, I would like to thank all the members of the Portfolio Committee for working with diligence and commitment, often participating in long sessions to hammer out the best possible way forward. Similarly, I also thank the entire staff of the Finance Directorate for their steady dedication and tireless support and sacrifices, ensuring that our objectives are met.

Clr. J. Wells

Chairperson, Finance and Service Delivery Portfolio Committee

CHIEF FINANCIAL OFFICER'S REPORT

1. OPERATING RESULTS

The operating results for the year ended 30 June 2007 produced a surplus of R14 591 442, compared to the budgeted amount of R2 950. This was achieved by actual income and expenditure exceeding budget by R16 857 428 and R2 233 936 respectively.

Details regarding the operating results per department, classification and type of income or expenditure are given in appendices D and E. Applicable statistics are shown in appendix F. The overall operating results for the year are as follows :-

	Actual 2006	Actual 2007	Variance 2006/ 2007	Budget 2007	Variance Actual/ Budget
	R	R	%	R	%
Income					
Opening surplus	5 971 632	7 537 100		7 537 100	
Operating income for the year	121 034 662	133 732 078	10.5	116 874 650	14.4
Appropriations					
	127 006 294	141 269 178		124 411 750	
Expenditure					
Operating expenditure for year	106 270 377	119 140 636	12.1	116 871 700	1.9
Appropriations	13 198 817	14 262 645			
Closing surplus	7 537 100	7 865 897		7 540 050	
	127 006 294	141 269 178		124 411 750	

The actual income exceeded that of the previous year by 10.5% whereas the budgeted increase allowed for an increase of 10.3%. The actual expenditure compared to that of the previous year increased by 12.1% compared with the budgeted increase of 10.3%. More care should be exercised by the various departments to keep expenditure within budget.

1.1 Rate and General Services

	Actual 2006	Actual 2007	Variance 2006/ 2007	Budget 2007	Variance Actual/ Budget
	R	R	%	R	%
Income	58 755 625	65 424 713	11.4	57 323 730	14.1
Expenditure	67 192 980	75 736 658	12.7	78 281 000	(3.3)
Deficit	(8 437 355)	(10 311 945)	22.2	(20 957 270)	(50.8)
Deficit as % of income	(14.4)	(15.8)		(36.6)	

Income from rates, sewerage disposal and refuse removal all exceeded the budget by substantial amounts resulting in the 14.1% variance shown in the above table. Expenditure on the other hand was less than budget by 3.3%.

1.2 Housing Service

	Actual 2006	Actual 2007	Variance 2006/ 2007	Budget 2007	Variance Actual/ Budget
	R	R	%	R	%
Income	75 413	178 022	136.1	103 360	72.2
Expenditure	41 207	39 909	(3.1)	42 470	(6.0)
(Deficit)/Surplus	34 206	138 113	303.8	60 890	126.8
(Deficit)/Surplus as % of income	45.4	77.6		58.9	

Actual income exceeded budget by 72% and expenditure was under budget by 6%. Transfer of houses from council to individuals is still taking place.

1.3 Trading Services

Statistics in respect of unit purchasing/production costs as well as selling costs can be found in appendix F.

Electricity Service

	Actual 2006	Actual 2007	Variance 2006/ 2007	Budget 2007	Variance Actual/ Budget
	R	R	%	R	%
Income	37 575 766	40 312 985	7.3	38 183 210	5.6
Expenditure	29 066 562	32 153 967	10.6	29 108 410	10.5
Surplus	8 509 204	8 159 018	(4.1)	9 074 800	(10.1)
Surplus as % of income	22.6	20.2		23.8	

The over-expenditure of 10,5% can be ascribed to bulk purchases, salaries, repairs and maintenance and general expenses all exceeding budget. This was due mainly to a major fault which caused expensive damage to the distribution system. Claims have been lodged with the insurers but was not fully settled by the insurers.

Water Service

Statistics in respect of producing and selling purified water are found in appendix F.

	Actual 2006	Actual 2007	Variance 2006/ 2007	Budget 2007	Variance Actual/ Budget
	R	R	%	R	%
Income	24 627 858	27 816 358	12.9	21 264 350	30.8
Expenditure	9 969 628	11 210 102	12.4	9 439 820	18.8
Surplus	14 658 230	16 606 256	13.3	11 824 530	40.4
Surplus as % of income	59.5	59.7		55.6	

Actual expenditure exceeded budget by 18.8% but the substantial increase of 30.8% in income more than compensated for this.

2. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred on fixed assets during the year exceeded the budgeted amount by R2 670 702 and exceeds that of the previous year by 40%, mainly due to prior year's grant funding in respect of the bucket eradication programme. The expenditure consists of the following: -

	Actual 2007	Budget 2007	Actual 2006
	R	R	R
Land and Buildings	354 500		135 518
Roads and stormwater drainage	493 103	37 600	870 129
Networks : Electricity		1 475 000	110 227
Water	175 108	1 502 000	568 826
Sewerage	9 674 289	491 000	6 230 697
Vehicles, machines and equipment	3 814 920	8 086 490	2 182 568
Other fixed assets	86 872	336 000	277 139
	14 598 792	11 928 090	10 375 104

Resources used to finance the above fixed assets were as follows: -

	Actual 2007	Budget 2007	Actual 2006
	R	R	R
Consolidated capital development and loans fund	4 822 203	4 696 690	4 162 491
Operating income	154 188	209 900	115 513

Grants and subsidies	9 622 401	7 021 500	6 097 100
	14 598 792	11 928 090	10 375 104

A complete analysis of capital expenditure (budgeted and actual) per department, classification or service is given in appendix C. More details regarding external loans and internal advances used to finance fixed assets are shown in appendix B.

3. EXTERNAL LOANS, INVESTMENTS AND CASH

External loans outstanding on 30 June 2007 amounted to R2 881 966 (R3 199 789 in 2006) as set out in appendix B. This outstanding amount is represented by one loan and is repayable monthly over a period of 10 years.

Investments and cash on hand amounted to R60 537 818 (R49 611 105 in 2006) and are largely required to meet current liabilities. More information regarding loans and investments is disclosed in notes 4 and 7 and in appendix B.

4. FUNDS, RESERVES AND PROVISIONS

Funds and reserves, including Trust funds, amounting to R94 481 653 as at 30 June 2007 were not fully represented by cash and investments.

The Consolidated Capital Development and Loans fund increased by R3 499 833 to R57 466 144 (R53 966 311 in 2006). Of these accumulated funds R11 945 514 was advanced to borrowing services (R9 753 112 in 2006).

The Dog Tax fund produced a surplus of R526 (R 550 in 2006), and the Parking Areas Development fund balance stood at R23 964.

The Housing fund balance increased by R13 853 from R5 341 784 at 30 June 2006 to R5 35 637 as at 30 June 2007.

Provisions increased from R1 788 137 in 2006 by R785 444 to R2 545 819 as at 30 June 2007.

More detailed information regarding funds, reserves and provisions appear in notes 1,2,3 and 12, as well as appendix A.

5. POST BALANCE SHEET EVENTS

There are no major events which took place after 30 June 2007 that may have a negative effect on the financial statements.

APPRECIATION

I am grateful to the Mayor and councillors, as well as the Municipal Manager and heads of other departments for the support given to the staff of the Treasury department and myself during the year. I also wish to thank the members of the audit team representing the Auditor General for their assistance and understanding shown.

I also wish to express my appreciation to the Treasury staff for their dedication and loyalty in the performance of their duties, especially as the department has been operating with a number of vacancies that have not yet been filled.

M.J. Ngcelwane
Chief Financial Officer
MAKANA MUNICIPALITY

30 August 2007

ACCOUNTING POLICIES

1. Basis of preparation

These financial statements have been prepared in accordance with the standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (Second edition – January 1996).

The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

The financial statements are prepared on the accrual basis as stated:

- Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received, such as traffic fines and certain licences.
- Expenditure is accrued in the year it is incurred.

2. Consolidation

The financial statements include the Rate and General services, Housing service, Trading services and the different funds, reserves and provisions. All inter-departmental charges are set-off against each other, with the exception of assessment rates, office rentals and all monthly service charges, which are treated as income and expenditure in the respective departments.

3. Fixed Assets

Fixed assets are stated:

- At historical cost, or
- At valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation,

While they are in existence and fit for use, except in the case of bulk assets, which are written off at the end of their estimated useful lives as determined by the Chief Financial Officer.

Depreciation

The balance shown against the heading “Loans Redeemed and Other Capital Receipts” in the notes to the balance sheet is tantamount to a provision for depreciation. However, certain structural differences do exist. By way of this “provision” assets are written down over their estimated useful lives. Apart from advances from council funds, assets may also be acquired through:

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.

- Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the “Loans Redeemed and Other Capital Receipts” accounts.

All net proceeds from the sale of fixed property and other assets are credited to the Consolidated Capital Development and Loans Fund.

Fixed assets are financed from different sources, including external loans, internal advances, operating income and grants or donations. Loans and advances are repaid within the estimated lives of the assets acquired from such loans and advances. Interest is charged to the service concerned at the ruling rate applicable at the time that the loan or advance is made.

4. Inventory

Inventory is valued at the lower of cost, determined on the weighted average basis, and net realisable value.

5. Funds, Reserves and Provisions

5.1 Dog Tax Fund

The Dog Tax Ordinance, No.19 of 1978 requires that a Dog Tax account be established into which all dog licence fees be paid and from which the cost of the controlling and licensing of dogs are met.

Housing Development Fund.

The Housing Development Fund is established in terms of the Housing Act (Act 107 of 1997). All net proceeds from housing letting schemes and the sale of houses are paid into the fund.

Parking Areas Development Fund

The net proceeds from the operation of parking meters and toll-parking areas are paid into this fund as required by the Road Traffic Ordinance No. 21 of 1966. The accumulated funds are used to establish off-street parking areas.

Repairs Reserve

The Repairs reserve is accumulated by way of contributions from operating income to cover the cost of unforeseen or emergency repairs to, or replacement of fixed assets.

Provision for Leave Pay

Payments made to employees in respect of accumulated leave is met from the Leave Pay reserve which is accumulated by way of contributions from operating income and from other sources if necessary.

Provision for Bad Debts and Working Capital

Annual contributions from operating income and appropriations from the accumulated surplus account are made to provide for bad debts and working capital.

5.7 Other Reserves and Provisions

Various other reserves and provisions are in existence for which there are no fixed policies.

6. Retirement Benefits

Council and its employees contribute to the Cape Joint Pension and Retirement Funds, SALA Pension Fund and SAMWU Provident Fund. These funds provide retirement benefits to such employees.

The retirement benefit plan is subject to the Pension Funds Act, with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income on the basis of current service costs. Unfavourable experience adjustments and the cost of securing increased benefits are written off over the lesser of the remaining period of service of employees or five years. Favourable experience adjustments are retained in the retirement benefit plan.

Full actuarial valuations are performed at least every three years.

7. Surpluses and Deficits

Trading and Housing services surpluses or deficits are transferred to Rate and General services.

8. Administration and other overhead expenses

The cost of internal support services in respect of Municipal Manager, City Secretariat, Financial service and Human resources are recharged, as far as practicable, on an assessed basis to the different services.

9. Investments

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and are invested with approved bodies per Circulars issued periodically by the Provincial Legislature.

10. Deferred charges

Internal advances were raised to pay the Department of Water Affairs for council's portion of the capital cost of the Lower Fish River Water Scheme. The annual repayments of these advances are recovered from operating income over the periods of the advances.

11. Income Recognition

11.1 Electricity and Water Billings

Meters are read and billed on a monthly basis. Where meters are not read during a particular month, they are provisionally billed based on average consumption. Income is recognised at the date meters are read and levies are made.

11.2 Assessment Rates

Assessment rates are levied annually on the value of land and improvements, and rebates are granted in respect of residential properties. Further relief based on conditions relating to income is provided to pensioners. Annual sewerage and water connection charges are also levied with the rates.

11.3 Other Services

Income from services such as refuse removal and sewerage recovered by way of debtors, is recognised when such levies are debited against the accounts. Income from other minor services, licences and fees is recognised when cash is received.

MAKANA MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

	Page
GENERAL INFORMATION	1
FOREWORD	2
CHIEF FINANCIAL OFFICER'S REPORT	3
ACCOUNTING POLICIES	8
BALANCE SHEET	12
INCOME STATEMENT	13
CASH FLOW STATEMENT	14
NOTES TO THE FINANCIAL STATEMENTS	15
APPENDIX A : STATUTORY FUNDS, TRUST FUNDS, RESERVES AND PROVISIONS	24
APPENDIX B : EXTERNAL LOANS AND INTERNAL ADVANCES	25
APPENDIX C : ANALYSIS OF FIXED ASSETS	26
APPENDIX D : ANALYSIS OF OPERATING INCOME AND EXPENDITURE	27
APPENDIX E : DETAILED INCOME STATEMENT	28
APPENDIX F : STATISTICAL INFORMATION	29

GENERAL INFORMATION

MEMBERS OF THE MAYOR'S EXECUTIVE

Councillor P. Kate	Executive mayor
Councillor M. Ntshiba	Chairperson of Land, Housing and Infrastructural Development Committee
Councillor J.C. Wells	Chairperson of Finance and Service Delivery Committee
Councillor N. Masoma	Chairperson of Economic Development and Tourism Committee
Councillor Z. Peter	Chairperson of Corporate Services
Councillor T. Ngeleza	Chairperson of Environment, Disaster Management and Heritage Committee
Councillor X. Simakuhle	Chairperson of Social Services and Community Empowerment Committee

LOCAL AUTHORITY GRADING

Grade 8

AUDITORS

Auditor General

BANKERS

First National Bank
Standard Bank of South Africa Ltd.

REGISTERED OFFICE

51 High street, Church Square
Telephone (046) 6036111
Fax (046) 6229488

P.O. Box 176, GRAHAMSTOWN, 6140

MUNICIPAL MANAGER

P. Naidoo

CHIEF FINANCIAL OFFICER

M.J. Ngcelwane

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 3 to 28 were approved by the Municipal Manager on 31 August 2007 and will be presented to council for approval at its next meeting.

MUNICIPAL MANAGER
P. Naidoo

CHIEF FINANCIAL OFFICER
M.J. Ngcelwane

MAKANA MUNICIPALITY
BALANCE SHEET AT 30 JUNE 2007

	Note	2007	2006
		R	R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		65 091 911	61 577 675
Accumulated funds	1	62 878 183	59 363 947
Reserves	2	2 213 728	2 213 728
(ACCUMULATED DEFICIT)/ RETAINED INCOME	18	9 019 748	7 537 100
		74 111 659	69 114 775
TRUST FUNDS	3	26 843 913	15 898 821
LONG-TERM LIABILITIES	4	2 519 515	2 881 966
CONSUMER DEPOSITS : SERVICES	5	1 697 641	1 606 093
		105 172 728	89 501 655
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	6	13 764 450	11 572 049
INVESTMENTS	7	9 652 242	655 245
LONG-TERM DEBTORS	8	57 363	165 238
		23 474 055	12 392 532
NET CURRENT ASSETS/(LIABILITIES)		81 698 673	77 109 123
CURRENT ASSETS		104 064 283	100 094 031
Inventory	9	1 565 903	1 278 601
Debtors	10	51 498 802	49 677 360
Cash		7 293	7 293
Short-term investments	7	50 885 576	48 955 860
Short-term portion of long-term debtors	8	106 709	174 917
CURRENT LIABILITIES		(22 365 610)	(22 984 908)
Provisions	12	2 545 819	1 788 137
Creditors	13	16 997 800	17 521 741
Short-term portion of long-term liabilities	4	362 451	317 823
Bank overdraft		2 459 540	3 357 207
		105 172 728	89 501 655

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

2006 Actual Income R	2006 Actual Expenditure R	2006 Surplus/ (Deficit) R		2007 Actual Income R	2007 Actual Expenditure R	2007 Surplus/ (Deficit) R	2007 Budget Surplus/ (Deficit) R
58 755 625	67 192 980	(8 437 355)	RATE AND GENERAL SERVICES	65 424 713	75 736 658	(10 311 945)	(20 957 270)
39 746 782	38 160 100	1 586 682	Community services	43 228 611	43 319 153	(90 542)	(5 231 970)
599 967	13 104 960	(12 504 993)	Subsidised services	589 081	14 122 738	(13 533 657)	(14 566 060)
18 408 876	15 927 920	2 480 956	Economic services	21 607 021	18 294 767	3 312 254	(1 159 240)
75 413	41 207	34 206	HOUSING SERVICE	178 022	39 909	138 113	60 890
62 203 624	39 036 190	23 167 434	TRADING SERVICES	68 129 343	43 364 069	24 765 274	20 899 330
<u>121 034 662</u>	<u>106 270 377</u>	14 764 285		<u>133 732 078</u>	<u>119 140 636</u>	14 591 442	<u>2 950</u>
		(13 198 817)	Appropriations for the year (refer note 18)			(13 108 794)	
		1 565 468	Net surplus/(deficit) for the year			1 482 648	
		5 971 632	Accumulated surplus/(deficit) beginning of the year			7 537 100	
		<u>7 537 100</u>	ACCUMULATED SURPLUS/(DEFICIT) END OF THE YEAR			<u>9 019 748</u>	

(Refer to appendix D and E for more detail)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 R	2006 R
CASH RETAINED FROM OPERATING ACTIVITIES		26 740 995	19 047 105
Cash generated by operations	19	(8 207 944)	(7 113 707)
Investment income	17	4 666 713	2 658 407
(Increase)/decrease in working capital	20	(7 535 054)	2 743 900
		(11 076 285)	(1 711 400)
Less: External interest paid	17	(412 897)	(452 824)
Cash available from operations		(11 489 182)	(2 164 224)
Cash contributions from the public and the State		37 940 132	21 625 709
Net proceeds from disposal of fixed assets		290 045	(414 380)
CASH UTILISED IN INVESTING ACTIVITIES			
Investment in fixed assets		(14 598 792)	(10 375 104)
NET CASH FLOW		12 142 203	8 672 001
CASH EFFECTS OF FINANCING ACTIVITIES			
Increase/(decrease) in long-term loans	21	(317 823)	(277 897)
Increase/(decrease) in short-term loans	22	(897 667)	1 665 422
(Increase)/decrease in cash investments	23	(10 926 713)	(10 059 076)
(Increase)/decrease in cash	24	0	(450)
		(12 142 203)	(8 672 001)

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007

	2007 R	2006 R
1. ACCUMULATED FUNDS		
Consolidated Capital Development and Loans Fund	57 466 144	53 966 311
Dog Tax Fund	32 438	31 912
Housing Fund (established i.t.o. Act 107/97)	5 355 637	5 341 784
Parking Areas Development Fund	23 964	23 940
	<u>62 878 183</u>	<u>59 363 947</u>
(Refer to appendix A for more detail)		
2. RESERVES		
Motor vehicle insurance	89 211	89 211
National roads	46 160	46 160
Repairs and maintenance	2 078 357	2 078 357
	<u>2 213 728</u>	<u>2 213 728</u>
(Refer to appendix A for more detail)		
3. TRUST FUNDS		
Albany Road Safety	176	176
Black rugby trust	458	
Christmas cheer	2 062	2 062
Columbarium	4 957	4 957
Cricket stadium		16
Financial management grant	1 087 552	801 579
Fort Brown - Agri-village	550 000	300 000
Freedom festival (Keloggs)		60 907
Gane bequest	521	521
Glasier Trust	1 220	1 220
Gordon Gowie bequest	500	500
Grahamstown Football Association	314 000	314 000
Grants and donations (capital expenditure)	15 093 752	5 322 012
Grave maintenance	2 700	2 700
Health development forum	90 413	106 487
Housing projects (Housing Board)	4 088 867	3 919 825
Ikwezi project	33 048	33 048
Integrated development plan	497 131	437 395
I.T. and data cleansing	6 284	120 521
Library	1 600	1 600
Makana small-scale mines	100 000	
Mayfield transit camp	257 653	343 994
Mayfield phase 2 - planning/survey	401 160	401 160
Municipal systems improvement grant	150 000	
National peace arboretum	94 100	87 563
Old cemetery board	15 532	15 532
Pre-paid electricity		145 000
Slater bequest	579	579
Sporting facilities (State lotteries)	1 107 221	1 042 045
T.B. Hospital	3 292	3 291
Trust funds (Grahamstown East)	57 546	57 546
Trust funds (Alicedale)	1 287 466	507 524
Trust funds (Riebeeck East)	132 215	132 215
Vroom bequest	200	200
Vukani greenbelt project (State lotteries)	170 800	170 800

Valuation (general)	483 761	594 542
Vuna award	660 738	663 823
Water: Fort Brown	146 409	138 752
Workstudy		164 729
	<u>26 843 913</u>	<u>15 898 821</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
4. LONG TERM LIABILITIES		
Annuity loans	2 881 966	3 199 789
	<u>2 881 966</u>	<u>3 199 789</u>
Less: Current portion transferred to Current Liabilities	(362 451)	(317 823)
Annuity loans	<u>362 451</u>	<u>317 823</u>
	<u>2 519 515</u>	<u>2 881 966</u>
(Refer to appendix B for more detail on long term liabilities)		
ANNUITY LOANS		
▶ There is one annuity loan outstanding, it carries interest at 13.50% per annum and will be fully redeemed in February 2013.		
▶ No loans are secured by any assets of Makana.		
5. CONSUMER DEPOSITS : SERVICES		
Electricity and water	<u>1 697 641</u>	<u>1 606 093</u>
Guarantees in lieu of electricity and water deposits	<u>141 918</u>	<u>148 597</u>
6. FIXED ASSETS		
Fixed assets at the beginning of the year	189 335 055	179 785 681
‘	14 598 792	10 375 104
Less: Assets written off , transferred or disposed of during the year	(49 824)	(825 730)
	<u>203 884 023</u>	<u>189 335 055</u>
Less: Loans redeemed and other capital receipts	(190 119 573)	(177 763 006)
Net fixed assets	<u>13 764 450</u>	<u>11 572 049</u>
(Refer to appendix C for more details on fixed assets)		
7. BANK BALANCES and INVESTMENTS		
(a). Bank Balances		
First National Bank (current account)		
Balance at beginning of year	(1 166 209)	165 273
Balance at end of year	<u>632 732</u>	<u>(1 166 209)</u>
Standard Bank (current account)		
Balance at beginning of year	<u>836 029</u>	<u>3 541 639</u>
Balance at end of year	<u>197 458</u>	<u>836 029</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
7(b). Investments		
Unlisted		
Long term deposits	9 483 365	486 368
Other deposits	50 885 576	48 955 860
Collateral deposits	168 877	168 877
	<u>60 537 818</u>	<u>49 611 105</u>
▶ Average rate of return on investments (gross)	6.93%	4.62%
▶ Provincial legislature requires local authorities to invest funds not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a plenary rate to meet commitments. This requirement has been complied with.		
▶ No investments have been pledged as security for any funding facilities of the council.		
8. LONG-TERM DEBTORS		
Car loans	164 072	340 155
	<u>164 072</u>	<u>340 155</u>
Less: Short-term portion transferred to current assets	<u>(106 709)</u>	<u>(174 917)</u>
	<u>57 363</u>	<u>165 238</u>
9. INVENTORY		
Consumable stores and materials	<u>1 565 903</u>	<u>1 278 601</u>
▶ No provision has been made for obsolete inventory.		
10. DEBTORS		
Current debtors (consumer and other)	127 943 995	111 000 419
Suspense accounts	<u>(6 445 019)</u>	<u>(6 992 884)</u>
	121 498 976	104 007 535
Less: Provision for bad and doubtful debts	<u>(70 000 174)</u>	<u>(54 330 175)</u>
	<u>51 498 802</u>	<u>49 677 360</u>
▶ Amounts totalling R175 721 (2006: R203 505) were written off as bad debts. This represents 0.13% (2006: 0.17%) of total operating income for the year. Days outstanding in debtors amount to 388 days (2006: 360 days).		
11. DEFERRED CHARGES		
Balance of advance	<u>-</u>	<u>-</u>
12. PROVISIONS		
Leave pay	2 384 169	1 626 487
Post-retirement medical benefits	161 650	161 650

2 545 819

1 788 137

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
13. CREDITORS		
Trade creditors	774 913	620 969
Other	2 455 242	2 781 518
Suspense accounts	13 539 534	13 912 429
Deposits : other	228 111	206 825
	16 997 800	17 521 741

14. ASSESSMENT RATES

	Valuations		
	as at 1 July 2006 R	Actual income 2007 R	Actual income 2006 R
Public	212 376 736	14 819 855	12 434 299
State	161 253 661	8 354 323	9 542 603
Municipal	9 453 670	110 060	376 359
		<u>23 284 238</u>	<u>22 353 261</u>
Annual fire brigade charges		110 516	102 261
	383 084 067	23 394 754	22 455 522

- ▶ Valuations on land and improvements are performed every four years and the last general valuation came into effect on 1 July 1987. The basic rate was 4.1 cents for residential properties (3.9 cents in 2006) and 6.16 cents for other properties (5.7 cents in 2006).
A rebate of 20 % was granted to pensioners earning less than R18 000 per annum.

15(a). COUNCILLORS' ALLOWANCES

Mayor	326 020	222 384
Speaker	143 448	99 252
Chairpersons of committees	806 897	558 297
Councillors	1 564 896	925 566
Travelling allowance	947 067	526 005
Housing allowance		25 496
Telephone allowance	136 595	267 892
Use of personal facilities allowance		47 840
Pension fund contributions	347 334	181 237
Medical aid contributions	100 053	45 334
	4 372 310	2 899 303

- ▶ Councillors' salaries, allowances and benefits are within the upper limits as prescribed by the Public Office Bearers' Act No. 20 of 1998.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
15(b). REMUNERATION OF SECTION 57 EMPLOYEES		
(1) Municipal Manager		
Annual remuneration	463 273	431 719
Transport allowance	86 957	86 957
Telephone allowance	7 200	7 200
	<u>557 430</u>	<u>525 876</u>
(2) Chief Financial Officer		
Annual remuneration	315 069	293 688
Transport allowance	70 123	70 127
Telephone allowance	3 600	3 600
	<u>388 792</u>	<u>367 415</u>
(3) Directors (3)		
Annual remuneration	972 613	895 716
Transport allowance	202 433	219 485
Telephone allowance	13 200	18 400
	<u>1 188 246</u>	<u>1 133 601</u>
16(a). AUDITORS' REMUNERATION	<u>753 083</u>	<u>703 559</u>
(b). PAYE and UIF	<u>5 980 538</u>	<u>5 181 073</u>
(c). LEVIES		
(1) District Council	-	233 008
(2) Skills development	420 460	378 678
(3) Water research	29 641	11 729
	<u>450 101</u>	<u>623 415</u>
(d). VAT		
VAT payable	<u>2 213 760</u>	<u>2 578 278</u>
(e). PENSION and MEDICAL AID		
Payroll deductions and council contributions	<u>12 303 960</u>	<u>11 140 323</u>
▶ There were no amounts outstanding in respect of note 16 as at 30 June 2007.		
17. FINANCE TRANSACTIONS		
Total external interest earned or paid:		
- Interest earned	<u>4 666 713</u>	<u>2 658 407</u>
- Interest paid	<u>412 897</u>	<u>452 824</u>
Capital charges debited to operating account:		
Interest:	1 545 369	1 481 417
- External	-	-
- Internal	1 545 369	1 481 417
Redemption:	2 209 944	2 003 441

- External	-	-
- Internal	2 209 944	2 003 441
Deferred charges written off		128 094
	<u>3 755 313</u>	<u>3 612 952</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
18. APPROPRIATIONS		
<i>Appropriation account:</i>		
Unappropriated surplus/(deficit) at beginning of year	7 537 100	5 971 632
Operating surplus/(deficit) for the year	14 591 442	14 764 285
Appropriations for the year:	(13 108 794)	(13 198 817)
Prior year adjustments	(1 867 749)	(921 909)
Stores stock adjustment	(565 324)	(2 021 212)
Bad debts written off	(175 721)	(203 505)
Investments written off	-	(52 191)
Transfer to provision for bad debts	(10 500 000)	(10 000 000)
	9 019 748	7 537 100
<i>Operating account:</i>		
Fixed assets	154 188	115 513
Contributions to :	6 257 930	6 146 658
Consolidated Capital Development and Loans Fund	-	-
Repairs reserve	14 000	13 980
Bad debts provision	5 170 000	5 169 996
Leave pay provision	1 073 930	962 682
	6 412 118	6 262 171
► PRIOR YEAR ADJUSTMENTS :		
Creditors adjustments - R20 516; Health subsidy - R1 574 204;		
Legal fees - R411 842; VAT (R773 860); Study loans w/o R336 959;		
Debtor adjustments - R318 773; other - (R20 685).		
19. CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	14 591 442	14 764 285
Adjustments in respect of :		
Previous years' operating transactions	(13 108 794)	(13 198 817)
Appropriations charged against income:	6 412 118	6 262 171
Consolidated Capital Development and Loans Fund	0	0
Provisions and reserves	6 257 930	6 146 658
Fixed assets	154 188	115 513
Capital charges:	3 755 313	3 612 952
Interest paid:		
to internal funds	1 545 369	1 481 417
on external loans	-	-
Redemption:		
of internal advances	2 209 944	2 003 441
of external loans	-	-

Deferred charges written off	-	128 094
Investment income (operating account)	(2 902 707)	(1 928 781)
Grants and subsidies (operating account)	(16 624 408)	(13 697 157)

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
Non-operating income:		
Consolidated Capital Development & Loans Fund	1 258 559	1 846 302
Dog Tax	526	550
Parking Areas Development Fund	24	
Provisions and reserves		
Trust Funds	3 646 446	6 994 187
Non-operating expenditure:		
Housing Fund	(147)	(194)
Provisions and reserves	(316 248)	(1 748 126)
Trust Funds	(4 920 068)	(10 021 079)
	<u><u>(8 207 944)</u></u>	<u><u>(7 113 707)</u></u>
20. (INCREASE)/DECREASE IN WORKING CAPITAL		
(Increase)/decrease in inventory	(287 302)	185 543
(Increase)/decrease in debtors, long term debtors	(6 815 359)	817 168
Increase/(decrease) in creditors, consumer deposits	(432 393)	1 741 189
	<u><u>(7 535 054)</u></u>	<u><u>2 743 900</u></u>
21. INCREASE/(DECREASE) IN LONG-TERM LOANS		
Loans raised	-	-
Loans repaid	(317 823)	(277 897)
	<u><u>(317 823)</u></u>	<u><u>(277 897)</u></u>
22. INCREASE/(DECREASE) IN SHORT-TERM LOANS (BANK OVERDRAFT)		
Loans raised	2 459 540	3 357 207
Loans repaid	(3 357 207)	(1 691 785)
	<u><u>(897 667)</u></u>	<u><u>1 665 422</u></u>
23. (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS		
Investments realised	49 611 105	39 552 029
Investments made	(60 537 818)	(49 611 105)
	<u><u>(10 926 713)</u></u>	<u><u>(10 059 076)</u></u>
24. (INCREASE)/DECREASE IN CASH ON HAND		
Balance at beginning of year	7 293	6 843
Less : balance at end of year	7 293	7 293
	<u><u>0</u></u>	<u><u>(450)</u></u>
25. The last actuarial valuations of the Cape Joint Pension and Retirement Funds were done as at 30 June 2006 and were		

declared as financially sound as at that date.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007 R	2006 R
26. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS		
Guarantees by Grahamstown City Council in respect of building society and commercial bank housing loans to officials.	<u>168 877</u>	<u>168 877</u>
▶ Litigation in respect of unfair labour practise against Council is in progress. If successful, the amounts involved would be met from Accumulated Surplus should a claim against insurance be unsuccessful.		
27. CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure :		
Approved and contracted for	7 369 884	8 127 290
Approved but not yet contracted for		306 295
	<u>7 369 884</u>	<u>8 433 585</u>
This expenditure will be financed from:		
Grants and subsidies	5 751 685	8 127 290
Internal advances	1 618 199	306 295
	<u>7 369 884</u>	<u>8 433 585</u>
28. CONSOLIDATED LOANS FUND		
External loans (see appendix B)	2 881 966	3 199 789
Internal investments	65 091 911	61 577 675
Creditors and temporary advances		
	<u>67 973 877</u>	<u>64 777 464</u>
Less:	(65 091 911)	(61 577 675)
External investments	(22 183 355)	(6 401 735)
Purchase of land	(279 363)	(279 363)
Debtors (temporary advances)	(42 629 193)	(54 896 577)
	<u>2 881 966</u>	<u>3 199 789</u>
(Refer to appendix B for more details)		
Net expenditure charged to borrowing services at an average rate of -27.15%		
Interest paid on :		
- External loans	412 897	452 824
- Internal investments		88 267
	<u>412 897</u>	<u>541 091</u>
Less : Interest earned on external investments	(1 238 615)	(184 450)
	<u>(825 718)</u>	<u>356 641</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007 (continued)

	2007	2006
	R	R
29. CAPITAL DEVELOPMENT FUND		
Outstanding advances to borrowing services :		
Accumulated fund	57 466 144	53 966 311
Less : Internal investments in Consolidated Loans Fund	(48 402 596)	(47 412 988)
Add : External loans outstanding	2 881 966	3 199 789
	<u>11 945 514</u>	<u>9 753 112</u>

(See Appendices A and B for more detail)

APPENDIX A
ACCUMULATED FUNDS, TRUST FUNDS AND RESERVES

	Balance at 30.06.2006 R	Contributions during the year R	Interest on Investments R	Other Income R	Expenditure during the year R	Balance at 30.06.2007 R
ACCUMULATED FUNDS						
Consolidated Capital Development and Loans Fund	53 966 311		1 239 128	3 107 272	846 567	57 466 144
Dog Tax	31 912			526		32 438
Housing Fund	5 341 784	14 000			147	5 355 637
Parking Areas Development Fund	23 940			24		23 964
	59 363 947	14 000	1 239 128	3 107 822	846 714	62 878 183
TRUST FUNDS						
Albany Road Safety	176					176
Black rugby trust		493 484			493 026	458
Christmas Cheer	2 062					2 062
Columbarium	4 957					4 957
Cricket stadium (UCBSA)	16		418		434	0
Finance management grant	801 579	750 000	65 998		530 025	1 087 552
Fort Brown - Agri-village	300 000	250 000				550 000
Freedom festival (Keloggs)	60 907				60 907	0
Gane bequest	521					521
Glasier Trust	1 220					1 220
Gordon Gowie bequest	500					500
Grahamstown Football Association	314 000					314 000
Grants & donations (capital expdtr)	5 322 012	21 315 724		385 093	11 929 077	15 093 752
Grave maintenance trust	2 700					2 700
Health development forum	106 487		913		16 987	90 413
Housing projects (Housing Board)	3 919 825	40 661	261 520	2 243	135 382	4 088 867
Ikwezi project	33 048					33 048
Integrated development plan	437 395	100 000	41 011	97 966	179 241	497 131
I.T. and data cleansing	120 521		11 629		125 866	6 284
Library	1 600					1 600
Makana small-scale mines		100 000				100 000
Mayfield transit camp	343 994		24 403		110 744	257 653
Mayfield phase 2 planning	401 160					401 160
Municipal systems improvement grant		350 000			200 000	150 000
National peace arboretum	87 563		6 537			94 100
Old cemetery board	15 532					15 532
Pre-paid electricity	145 000				145 000	0
Slater bequest	579					579
Sporting facilities (State Lotteries)	1 042 045		65 176			1 107 221
T.B. Hospital : J.C. Rae	624					624
T.B. Hospital : N.E. Bennett	804					804
T.B. Hospital : equipment	1 864					1 864
Trust fund (Ght. East)	57 546					57 546
Trust funds (Alicedale)	507 524	876 999	909		97 966	1 287 466
Trust funds (Riebeeck East)	132 215					132 215
Valuation (general)	594 542		39 219		150 000	483 761
Vroom bequest	200					200
Vukani greenbelt proj.(State Lottery)	170 800					170 800
Vuna award	663 823	200 000			203 085	660 738
Water : Fort Brown (Rural areas)	138 752		7 657			146 409
Workstudy	164 729				164 729	0
	15 898 822	24 476 868	525 390	485 302	14 542 469	26 843 913
RESERVES						
Motor vehicle insurance	89 211					89 211
National roads reserve	46 160					46 160
Repairs and maintenance	2 078 357					2 078 357
	2 213 728	0	0	0	0	2 213 728