

MAKANA MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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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 (Acting)

T. Klaas

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 2008 and will be presented to council for approval at its next meeting.

MUNICIPAL MANAGER (Acting)
T. Klaas

CHIEF FINANCIAL OFFICER
M.J. Ngcelwane

FOREWORD

The 2007 / 2008 financial year commenced at a high speed with the implementation of key changes within the Finance Portfolio of Makana Municipality. Valuable efforts were made in the revision of financial related policies and by-laws, and Council adopted the revised policies on the 27 November 2007.

One historic event during the 2007 / 2008 financial year was the implementation of Property Rates Act of 2004, which had its own hiccups, as this resulted in general rates being levied on “fair market values” of properties in the Makana Municipal area of jurisdiction. One can boldly state that Makana Municipality became one of the leaders in implementing Property Rates Act in the Cacadu District Municipality.

During the same financial year the municipality obtained results from the Credit Rating Agency (namely, Moodeys Rating Agency), which indicated some positive results for the municipality, although some weaknesses were also identified. In October 2007 the Portfolio Committee resolved that all arrears for the 100% indigent be written off, and that resolution was implemented in June 2008, resulting in an amount of R27m being written off. New regular reporting on debts enabled the Portfolio Committee to improve its tracking of debts from Government Departments, Councillors and municipal employees. The focus during the 2008 / 2009 financial year will be on other categories.

Internal auditing using, PriceWaterhouseCoopers (PwC) in conjunction with other local municipalities under Cacadu District Municipality (CDM) came into operation. The Audit Committee system, under a shared service also operated effectively from March 2008. The Portfolio Committee also underwent a name change later in June 2008, naming it as the Budget, Treasury and IDP Committee (BTI), with effect from 1 July 2008, which will ensure that the IDP and Budget are continuously being aligned. This came about as a result of a closer working relationship between the two offices during the 2008 / 2009 budgeting process.

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 2008 produced a surplus of R10 933 455, compared to the budgeted amount of R18 970. This was achieved by actual income and expenditure exceeding budget by R13 517 368 and R2 602 883 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 2007	Actual 2008	Variance 2007/ 2008	Budget 2008	Variance Actual/ Budget
	R	R	%	R	%
Income					
Opening surplus	7 537 100	4 346 528		4 346 528	
Operating income for the year	143 614 434	159 563 278	11.1	146 045 910	9.3
Appropriations					
	151 151 534	163 909 806		150 392 438	
Expenditure					
Operating expenditure for year	131 134 778	148 629 823	13.3	146 026 940	1.8
Appropriations	15 670 228	13 101 801			
Closing surplus	4 346 528	2 178 182		4 365 498	
	151 151 534	163 909 806		150 392 438	

The actual income exceeded that of the previous year by 11.1% whereas the budget allowed for an increase of 14.5%. The actual expenditure compared to that of the previous year increased by 13.3% compared with the budgeted increase of 14.5%.

1.1 Rate and General Services

	Actual 2007	Actual 2008	Variance 2007/ 2008	Budget 2008	Variance Actual/ Budget
	R	R	%	R	%
Income	70 599 149	81 556 663	15.5	73 975 580	10.2
Expenditure	82 682 853	92 567 773	12.0	97 787 280	(5.3)
Deficit	(12 083 704)	(11 011 110)	(8.9)	(23 811 700)	(53.8)
Deficit as % of income	(17.1)	(13.5)		(32.2)	

1.2 Housing Service

	Actual 2007	Actual 2008	Variance 2007/ 2008	Budget 2008	Variance Actual/ Budget
	R	R	%	R	%
Income	178 022	28 826	(83.8)	117 360	(75.4)
Expenditure	39 909	43 726	9.6	42 430	3.1
(Deficit)/Surplus	138 113	(14 900)	(110.8)	74 930	(119.9)
(Deficit)/Surplus as % of income	77.6	(51.7)		63.8	

Rental of houses is down 83.8% compared to the previous year 75.4% down on budget. The ongoing transfers of the houses to the tenants is the cause for the reduction in the rental income.

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 2007	Actual 2008	Variance 2007/ 2008	Budget 2008	Variance Actual/ Budget
	R	R	%	R	%
Income	40 312 985	41 614 969	3.2	43 137 250	(3.5)
Expenditure	32 349 457	33 978 046	5.0	32 003 200	6.2
Surplus	7 963 528	7 636 923	(4.1)	11 134 050	(31.4)
Surplus as % of income	19.8	18.4		25.8	

There is no significant difference between the actual income and expenditure compared to that of the previous year. However, if compared to budget, income is down by 3.5% and expenditure is up by 6.2%.

Water Service

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

	Actual 2007	Actual 2008	Variance 2007/ 2008	Budget 2008	Variance Actual/ Budget
	R	R	%	R	%
Income	32 524 278	36 362 820	11.8	28 815 720	26.2
Expenditure	16 062 559	22 040 278	37.2	16 194 030	36.1
Surplus	16 461 719	14 322 542	(13.0)	12 621 690	13.5
Surplus as % of income	50.6	39.4		43.8	

Actual expenditure exceeded budget by 36.1% and income exceeded budget by 26.2%. These variances are significant and although the method of accounting for free and subsidised basic services has changed and is partially responsible for the big differences, more care should be exercised when preparing the budget.

2. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred on fixed assets during the year exceeded that of the previous year by 54.8%, and again the largest portion of this was funded by grants.

Capital expenditure consists of the following:-

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Land and Buildings	30 000		354 500
Roads and stormwater drainage	2 813 623	1 649 186	493 103
Networks : Electricity		8 213 400	
Water	3 161 704	1 804 589	175 108
Sewerage	12 303 290	4 412 385	9 674 289
Vehicles, machines and equipment	4 291 760	7 891 380	3 814 920
Other fixed assets		200 000	86 872
	22 600 377	24 170 940	14 598 792

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

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Consolidated capital development and loans fund	5 639 326	4 329 800	4 822 203
Operating income	288 858	343 580	154 188
Grants and subsidies	16 672 193	19 497 560	9 622 401
	22 600 377	24 170 940	14 598 792

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 2008 amounted to R2 519 515 (R 2881 966 in 2007) 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 R64 025 131 (R60 546 375 in 2007) 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 R101 040 907 as at 30 June 2007 were not fully represented by cash and investments.

The Consolidated Capital Development and Loans fund increased by R3 748 944 to R61 179 944 (R57 430 500 in 2007). Of these accumulated funds R14 995 969 was advanced to borrowing services (R11 945 514 in 2007).

The Dog Tax fund produced a surplus of R560 (R 526 in 2007), increasing the Fund to R32 998 (R31 912 in 2007), and the Parking Areas Development fund balance stood at R24 876 (R23 964 in 2007).

The Housing fund balance increased by R42 169 from R5 355 637 at 30 June 2007 to R5 397 806 as at 30 June 2008.

Provisions increased from R2 545 819 in 2007 by R106 991 to R2 652 810 as at 30 June 2008.

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 2008 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

29 August 2008

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 Consolidated Capital Development and Loans Fund

All net proceeds from the sale of fixed property and other assets are credited to the Consolidated Capital Development and Loans Fund. Advances are made from the Fund to the various borrowing services for capital expenditure and repaid to the Fund over the estimated lives of the assets so acquired.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

5.6 Provision for Leave Pay

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

5.7 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.

5.8 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. Income Recognition

10.1 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.

10.2 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.

10.3 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
BALANCE SHEET AT 30 JUNE 2008

	Note	2008	2007
		R	R
CAPITAL EMPLOYED			
FUNDS AND RESERVES			
		68 848 852	65 056 267
Accumulated funds	1	66 635 124	62 842 539
Reserves	2	2 213 728	2 213 728
(ACCUMULATED DEFICIT)/ RETAINED INCOME			
	18	2 178 182	4 346 528
		71 027 034	69 402 795
TRUST FUNDS			
	3	29 539 245	26 845 176
LONG-TERM LIABILITIES			
	4	2 103 954	2 519 515
CONSUMER DEPOSITS : SERVICES			
	5	1 762 815	1 697 641
		104 433 048	100 465 127
EMPLOYMENT OF CAPITAL			
FIXED ASSETS			
	6	16 814 906	13 764 450
INVESTMENTS			
	7	10 153 892	9 652 242
LONG-TERM DEBTORS			
	8	5 116	57 363
		26 973 914	23 474 055
NET CURRENT ASSETS/(LIABILITIES)			
		77 459 134	76 991 072
CURRENT ASSETS			
		107 307 129	101 497 894
Inventory	9	3 124 273	1 995 921
Debtors	10	50 278 134	48 501 131
Cash		7 293	7 293
Short-term investments	7	53 863 946	50 886 840
Short-term portion of long-term debtors	8	33 483	106 709
CURRENT LIABILITIES			
		(29 847 995)	(24 506 822)
Provisions	12	2 652 810	2 545 819
Creditors	13	23 964 030	17 153 796
Short-term portion of long-term liabilities	4	415 561	362 451
Bank overdraft		2 815 594	4 444 756
		104 433 048	100 465 127

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

2007 Actual Income R	2007 Actual Expenditure R	2007 Surplus/ (Deficit) R		2008 Actual Income R	2008 Actual Expenditure R	2008 Surplus/ (Deficit) R	2008 Budget Surplus/ (Deficit) R
70 599 149	82 682 853	(12 083 704)	RATE AND GENERAL SERVICES	81 556 663	92 567 773	(11 011 110)	(23 811 700)
44 283 458	45 484 600	(1 201 142)	Community services	48 439 112	53 383 385	(4 944 273)	(12 141 880)
589 081	14 449 313	(13 860 232)	Subsidised services	637 899	15 771 971	(15 134 072)	(15 708 130)
25 726 610	22 748 940	2 977 670	Economic services	32 479 652	23 412 417	9 067 235	4 038 310
178 022	39 909	138 113	HOUSING SERVICE	28 826	43 726	(14 900)	74 930
72 837 263	48 412 016	24 425 247	TRADING SERVICES	77 977 789	56 018 324	21 959 465	23 755 740
<u>143 614 434</u>	<u>131 134 778</u>	12 479 656		<u>159 563 278</u>	<u>148 629 823</u>	10 933 455	<u>18 970</u>
		(15 670 228)	Appropriations for the year (refer note 18)			(13 101 801)	
		(3 190 572)	Net surplus/(deficit) for the year			(2 168 346)	
		7 537 100	Accumulated surplus/(deficit) beginning of the year			4 346 528	
		<u>4 346 528</u>	ACCUMULATED SURPLUS/(DEFICIT) END OF THE YEAR			<u>2 178 182</u>	

(Refer to appendix D and E for more detail)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH RETAINED FROM OPERATING ACTIVITIES		28 070 746	34 075 877
Cash generated by operations	19	(37 316 741)	(13 444 693)
Investment income	17	6 854 311	4 667 983
(Increase)/decrease in working capital	20	(2 074 474)	(4 811 405)
		(32 536 904)	(13 588 115)
Less: External interest paid	17	(368 270)	(412 897)
Cash available from operations		(32 905 174)	(14 001 012)
Cash contributions from the public and the State		60 792 952	47 822 488
Net proceeds from disposal of fixed assets		182 968	254 401
CASH UTILISED IN INVESTING ACTIVITIES			
Investment in fixed assets		(22 600 377)	(23 917 626)
NET CASH FLOW		5 470 369	10 158 251
CASH EFFECTS OF FINANCING ACTIVITIES			
Increase/(decrease) in long-term loans	21	(362 451)	(317 823)
Increase/(decrease) in short-term loans	22	(1 629 162)	1 087 549
(Increase)/decrease in cash investments	23	(3 478 756)	(10 927 977)
(Increase)/decrease in cash	24	0	0
		(5 470 369)	(10 158 251)

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008	2007
	R	R
1. ACCUMULATED FUNDS		
Consolidated Capital Development and Loans Fund	61 179 444	57 430 500
Dog Tax Fund	32 998	32 438
Housing Fund (established i.t.o. Act 107/97)	5 397 806	5 355 637
Parking Areas Development Fund	24 876	23 964
	66 635 124	62 842 539
(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
	2 213 728	2 213 728
(Refer to appendix A for more detail)		
3. TRUST FUNDS		
Albany Road Safety	176	176
Black rugby trust	11 008	458
Christmas cheer	2 062	2 062
Columbarium	4 957	4 957
Financial management grant	1 115 140	1 087 552
Fort Brown - Agri-village	550 000	550 000
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)	18 142 276	15 093 752
Grave maintenance	2 700	2 700
Health development forum	89 428	90 413
Housing projects (Housing Board)	4 212 665	4 090 130
Ikwezi project	27 039	33 048
Integrated development plan	265 014	497 131
I.T. and data cleansing	17 467	6 284
LED capacity building	185 899	
Library	1 600	1 600
Makana small-scale mines	100 000	100 000
Mayfield transit camp	291 535	257 653
Mayfield phase 2 - planning/survey	401 160	401 160
Municipal systems improvement grant	57 418	150 000
National peace arboretum	103 631	94 100
Old cemetery board	15 532	15 532
Slater bequest	579	579
Sporting facilities (State lotteries)	1 197 156	1 107 221
T.B. Hospital	3 292	3 292
Trust funds (Grahamstown East)	57 546	57 546
Trust funds (Alicedale)	1 018 551	1 287 466
Trust funds (Riebeeck East)	132 215	132 215
Valuation (general)	536 854	483 761
Vroom bequest	200	200
Vukani greenbelt project (State lotteries)	170 800	170 800
Vuna award	351 433	660 738
Water: Fort Brown	157 671	146 409

29 539 245

26 845 176

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	R	R
4. LONG TERM LIABILITIES		
Annuity loans	2 519 515	2 881 966
	<u>2 519 515</u>	<u>2 881 966</u>
Less: Current portion transferred to Current Liabilities	(415 561)	(362 451)
Annuity loans	<u>415 561</u>	<u>362 451</u>
	<u>2 103 954</u>	<u>2 519 515</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.
- ▶ The above loan is secured by the assessment rates payable by Rhodes University. No other loans are secured by any assets of Makana.

5. CONSUMER DEPOSITS : SERVICES

Electricity and water	<u>1 762 815</u>	<u>1 697 641</u>
Guarantees in lieu of electricity and water deposits	<u>142 918</u>	<u>141 918</u>

6. FIXED ASSETS

Fixed assets at the beginning of the year	213 202 857	189 335 055
Capital expenditure during the year	<u>22 600 377</u>	<u>14 598 792</u>
Add: Property not previously shown as assets	<u>22 600 377</u>	<u>23 917 626</u>
Less: Assets written off , transferred or disposed of during the year	(305 249)	(49 824)
	<u>235 497 985</u>	<u>213 202 857</u>
Less: Loans redeemed and other capital receipts	(218 683 079)	(199 438 407)
Net fixed assets	<u>16 814 906</u>	<u>13 764 450</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	632 732	(1 166 209)
Balance at end of year	<u>2 555 983</u>	<u>632 732</u>
Standard Bank (current account)		
Balance at beginning of year	<u>197 458</u>	<u>836 029</u>
Balance at end of year	<u>796 391</u>	<u>197 458</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	R	R
7(b). Investments		
Unlisted		
Long term deposits	9 985 015	9 483 365
Other deposits	53 863 946	50 886 840
Collateral deposits	168 877	168 877
	<u>64 017 838</u>	<u>60 539 082</u>
▶ Average rate of return on investments (gross)	10.53%	6.93%
▶ 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	38 599	164 072
	<u>38 599</u>	<u>164 072</u>
Less: Short-term portion transferred to current assets	(33 483)	(106 709)
	<u>5 116</u>	<u>57 363</u>
9. INVENTORY		
Consumable stores and materials	<u>3 124 273</u>	<u>1 995 921</u>
▶ No provision has been made for obsolete inventory.		
10. DEBTORS		
Current debtors (consumer and other)	118 093 175	127 943 995
Suspense accounts	(3 921 241)	(6 442 690)
	<u>114 171 934</u>	<u>121 501 305</u>
Amounts paid in advance	2 335 127	
	<u>116 507 061</u>	<u>121 501 305</u>
Less: Provision for bad and doubtful debts	(66 228 927)	(73 000 174)
	<u>50 278 134</u>	<u>48 501 131</u>
▶ Amounts totalling R27 021 012 (2007: R175 721) were written off as bad debts. This represents 16.9% (2007: 0.12%) of total operating income for the year. Days outstanding in debtors amount to 356 days (2007: 388 days).		
11. DEFERRED CHARGES	<u>-</u>	<u>-</u>
12. PROVISIONS		
Leave pay	2 491 160	2 384 169
Post-retirement medical benefits	161 650	161 650

2 652 810

2 545 819

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	R	R
13. CREDITORS		
Trade creditors	972 705	774 913
Other	1 485 491	2 463 825
Suspense accounts	18 447 121	13 686 447
Deposits : other	723 586	228 611
Amounts received in advance	2 335 127	
	23 964 030	17 153 796

14. ASSESSMENT RATES

	Valuations		
	as at	Actual	Actual
	1 July	income	income
	2007	2008	2007
	R	R	R
Public	3 069 103 497	12 597 793	14 819 855
State	488 020 570	9 258 460	9 399 693
Municipal	4 470 400	1 157 879	110 060
		23 014 132	24 329 608
Annual fire brigade charges		258	110 516
	3 561 594 467	23 014 390	24 440 124

- ▶ Valuations on land and improvements are performed every four years and the last general valuation came into effect on 1 July 2007. The basic rate
Urban: Residential - 0.689 cents; Other - 1.260 cents.
Rural: Residential - 0.311 cents; Other - 0.511 cents.
Various rebates are applicable under certain circumstances as per the Rates Policy and the Municipal Property Rates Act.

15(a). COUNCILLORS' ALLOWANCES

Mayor	350 472	326 020
Speaker	154 200	143 448
Chairpersons of committees	867 060	806 897
Councillors	1 682 256	1 564 896
Travelling allowance	1 018 111	947 067
Telephone allowance	235 560	136 595
Pension fund contributions	173 367	347 334
Medical aid contributions	38 025	100 053
	4 519 051	4 372 310

- ▶ 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 2008 (continued)

	2008	2007
	R	R
15(b). REMUNERATION OF SECTION 57 EMPLOYEES		
(1) Municipal Manager		
Annual remuneration	625 500	463 273
Transport allowance	110 004	86 957
Telephone allowance	9 996	7 200
	<u>745 500</u>	<u>557 430</u>
(2) Chief Financial Officer		
Annual remuneration	472 500	315 069
Transport allowance	90 000	70 123
Telephone allowance	7 500	3 600
	<u>570 000</u>	<u>388 792</u>
(3) Directors (4)		
Annual remuneration	1 890 000	972 613
Transport allowance	360 000	202 433
Telephone allowance	30 000	13 200
	<u>2 280 000</u>	<u>1 188 246</u>
15(c). COUNCILLORS' ARREAR CONSUMER ACCOUNTS		
The following councillors had arrear accounts outstanding for more than 90 days as at 30 June 2008:-	Over 90 days Outstanding	Over 90 days Outstanding
N.J. Fuku	1 531	
Z. Mantla	15 727	
L.C. May	388	
T.C. Ngeleza	170	
M.P. Ntshiba	3 333	
	<u>21 149</u>	<u>0</u>
16(a). AUDITORS' REMUNERATION	<u>997 797</u>	<u>753 083</u>
(b). PAYE and UIF	<u>6 903 853</u>	<u>5 980 538</u>
(c). LEVIES		
(1) Skills development	511 653	420 460
(2) Water research	-	29 641
	<u>511 653</u>	<u>450 101</u>
(d). VAT		
VAT payable	<u>503 659</u>	<u>2 213 760</u>
(e). PENSION and MEDICAL AID		
Payroll deductions and council contributions	<u>15 632 168</u>	<u>12 303 960</u>

► There were no amounts outstanding in respect of note 16 as at 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008 R	2007 R
17. FINANCE TRANSACTIONS		
Total external interest earned or paid:		
- Interest earned	6 854 311	4 667 983
- Interest paid	368 270	412 897
Capital charges debited to operating account:		
Interest:	1 770 227	1 545 369
- External	-	-
- Internal	1 770 227	1 545 369
Redemption:	2 540 504	2 209 944
- External	-	-
- Internal	2 540 504	2 209 944
Deferred charges written off	-	-
	4 310 731	3 755 313
18. APPROPRIATIONS		
<i>Appropriation account:</i>		
Unappropriated surplus/(deficit) at beginning of year	4 346 528	7 537 100
Operating surplus/(deficit) for the year	10 933 455	12 479 656
Appropriations for the year:	(13 101 801)	(15 670 228)
Prior year adjustments	(1 067 020)	(1 867 749)
Stores stock adjustment	(366 827)	(126 758)
Bad debts written off	(5 639 785)	(175 721)
Transferred to Housing Fund	(28 169)	
Transfer to provision for bad debts	(6 000 000)	(13 500 000)
Unappropriated surplus/(deficit) at end of year	2 178 182	4 346 528
<i>Operating account:</i>		
Fixed assets	288 858	154 188
Contributions to :	6 665 738	6 257 930
Consolidated Capital Development and Loans Fund	14 000	14 000
Repairs reserve (Housing)	6 170 000	5 170 000
Bad debts provision	481 738	1 073 930
Leave pay provision	-	-
	6 954 596	6 412 118

► **PRIOR YEAR ADJUSTMENTS :**

Creditors adjustments - R128 628; Health subsidy - R912 246;
VAT - (R39 529); Investment & interest adj. - (R2 340 168);
Debtor adjustments - (R292 844); Other - R564 645.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008 R	2007 R
19. CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	10 933 455	12 479 656
Adjustments in respect of:		
Previous years' operating transactions	(13 101 801)	(15 670 228)
Appropriations charged against income:	6 954 596	6 412 118
Consolidated Capital Development and Loans Fund	0	0
Provisions and reserves	6 665 738	6 257 930
Fixed assets	288 858	154 188
Capital charges:	4 310 731	3 755 313
Interest paid:		
to internal funds	1 770 227	1 545 369
on external loans	-	-
Redemption:		
of internal advances	2 540 504	2 209 944
of external loans	-	-
Deferred charges written off	-	-
Investment income (operating account)	(4 234 205)	(2 902 707)
Grants and subsidies (operating account)	(35 928 613)	(26 506 764)

Non-operating income:		
Consolidated Capital Development & Loans Fund	297 075	1 258 559
Dog Tax	560	526
Parking Areas Development Fund	912	24
Housing Fund	28 169	
Trust Funds	1 997 198	3 434 713
Non-operating expenditure:		
Housing Fund		(147)
Provisions and reserves	(374 747)	(316 248)
Trust Funds	(8 200 071)	4 610 492
	(37 316 741)	(13 444 693)
20. (INCREASE)/DECREASE IN WORKING CAPITAL		
(Increase)/decrease in inventory	(1 128 352)	(717 320)
(Increase)/decrease in debtors, long term debtors	(7 821 530)	(3 817 688)
Increase/(decrease) in creditors, consumer deposits	6 875 408	(276 397)
	(2 074 474)	(4 811 405)
21. INCREASE/(DECREASE) IN LONG-TERM LOANS		

Loans raised
Loans repaid

-	-
(362 451)	(317 823)
<u>(362 451)</u>	<u>(317 823)</u>
<u><u>(362 451)</u></u>	<u><u>(317 823)</u></u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	R	R
22. INCREASE/(DECREASE) IN SHORT-TERM LOANS (BANK OVERDRAFT)		
Loans raised	2 815 594	4 444 756
Loans repaid	(4 444 756)	(3 357 207)
	<u><u>(1 629 162)</u></u>	<u><u>1 087 549</u></u>
23. (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS		
Investments realised	60 539 082	49 611 105
Investments made	(64 017 838)	(60 539 082)
	<u><u>(3 478 756)</u></u>	<u><u>(10 927 977)</u></u>
24. (INCREASE)/DECREASE IN CASH ON HAND		
Balance at beginning of year	7 293	7 293
Less : balance at end of year	7 293	7 293
	<u><u>0</u></u>	<u><u>0</u></u>
25. RETIREMENT BENEFITS		
The last actuarial valuations of the Cape Joint Pension and Retirement Funds were done as at 30 June 2007 and were declared as financially sound as at that date.		
26. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS		
Guarantees by Makana Municipal Council in respect of building society and commercial bank housing loans to officials.	<u><u>168 877</u></u>	<u><u>168 877</u></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	16 613 061	7 369 884
Approved but not yet contracted for		
	<u><u>16 613 061</u></u>	<u><u>7 369 884</u></u>
This expenditure will be financed from:		
Grants and subsidies	16 613 061	5 751 685
Internal advances		1 618 199
	<u><u>16 613 061</u></u>	<u><u>7 369 884</u></u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	R	R
28. CONSOLIDATED LOANS FUND		
External loans (see appendix B)	2 519 515	2 881 966
Internal investments	68 848 852	65 056 267
Creditors and temporary advances		
	<u>71 368 367</u>	<u>67 938 233</u>
Less:	(66 863 253)	(65 056 267)
External investments	(18 700 211)	(22 183 355)
Purchase of land	(279 363)	(279 363)
Debtors (temporary advances)	(47 883 679)	(42 593 549)
	<u>4 505 114</u>	<u>2 881 966</u>
(Refer to appendix B for more details)		
Net expenditure charged to borrowing services at an average rate of	-41.89%	
Interest paid on :		
- External loans	368 270	412 897
- Internal investments		
	<u>368 270</u>	<u>412 897</u>
Less : Interest earned on external investments	(1 915 310)	(1 238 615)
	<u>(1 547 040)</u>	<u>(825 718)</u>
29. CAPITAL DEVELOPMENT FUND		
Outstanding advances to borrowing services :		
Accumulated fund	61 179 444	57 430 500
Less : Internal investments in Consolidated Loans Fund	(48 644 305)	(48 366 952)
Add : External loans outstanding	2 519 515	2 881 966
	<u>15 054 654</u>	<u>11 945 514</u>
(See Appendices A and B for more detail)		

APPENDIX A
ACCUMULATED FUNDS, TRUST FUNDS AND RESERVES

	Balance at 30.06.2007	Contributions during the year	Interest on Investments	Other Income	Expenditure during the year	Balance at 30.06.2008
	R	R	R	R	R	R
ACCUMULATED FUNDS						
Consolidated Capital Development and Loans Fund	57 430 500		1 915 310	2 250 736	417 102	61 179 444
Dog Tax	32 438			560		32 998
Housing Fund	5 355 637	14 000		28 169		5 397 806
Parking Areas Development Fund	23 964			912		24 876
	62 842 539	14 000	1 915 310	2 280 377	417 102	66 635 124
TRUST FUNDS						
Albany Road Safety	176					176
Black rugby trust	458	118 250			107 700	11 008
Christmas Cheer	2 062					2 062
Columbarium	4 957					4 957
Finance management grant	1 087 552	500 000	94 208		566 620	1 115 140
Fort Brown - Agri-village	550 000					550 000
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)	15 093 752	24 864 339			21 815 815	18 142 276
Grave maintenance trust	2 700					2 700
Health development forum	90 413		5 181		6 166	89 428
Housing projects (Housing Board)	4 090 130	16 650	362 915	10 995	268 025	4 212 665
Ikwezi project	33 048				6 009	27 039
Integrated development plan	497 131	50 000	30 784		312 901	265 014
I.T. and data cleansing	6 284		11 183			17 467
LED capacity building		222 703			36 804	185 899
Library	1 600					1 600
Makana small-scale mines	100 000					100 000
Mayfield transit camp	257 653		33 882			291 535
Mayfield phase 2 planning	401 160					401 160
Municipal systems improvement grant	150 000	150 000			242 582	57 418
National peace arboretum	94 100		9 531			103 631
Old cemetery board	15 532					15 532
Slater bequest	579					579
Sporting facilities (State Lotteries)	1 107 221		92 757	3 100	5 922	1 197 156
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)	1 287 466	175 500			444 415	1 018 551
Trust funds (Riebeeck East)	132 215					132 215
Valuation (general)	483 761		53 093			536 854
Vroom bequest	200					200
Vukani greenbelt proj.(State Lottery)	170 800					170 800
Vuna award	660 738	750 000			1 059 305	351 433
Water : Fort Brown (Rural areas)	146 409		11 262			157 671
	26 845 176	26 847 442	704 796	14 095	24 872 264	29 539 245
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

APPENDIX B

EXTERNAL LOANS AND INTERNAL ADVANCES

	Balance at 30.06.2007	Received during year	Redeemed or written off during year	Balance at 30.06.2008
	R	R	R	R
EXTERNAL LOANS				
LOCAL REGISTERED STOCK	-			-
Loan No. Interest % Redeemable				
(Refer to notes 4 and 28)	-			-
Annuity loan	2 881 966		362 451	2 519 515
(Refer to notes 4 and 28)	2 881 966	0	362 451	2 519 515
INTERNAL ADVANCES TO BORROWING SERVICES				
	Balance at 30.06.2007	Received during year	Redeemed or written off during year	Balance at 30.06.2008
	R	R	R	R
Consolidated Capital Development and Loans Fund	11 945 514	5 590 959	2 540 504	14 995 969
(Refer to notes 28 and 29)	11 945 514	5 590 959	2 540 504	14 995 969