

LETSEMENG MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2014

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Letsemeng Municipality at 30 June 2014.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2012/13 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

2.1 Financial Statement Ratios:

INDICATOR	2014	2013
Surplus / (Deficit) before Appropriations	20,700,767	5,451,026
Surplus / (Deficit) at the end of the Year	642,653,570	632,215,757
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	21.51%	26.72%
Remuneration of Councillors	2.92%	2.71%
Depreciation and Amortisation	16.68%	18.19%
Impairment Losses	4.97%	4.74%
Repairs and Maintenance	2.66%	2.14%
Interest Paid	0.53%	1.30%
Bulk Purchases	20.72%	18.17%
Financial Position		
Debtors Management:		
Outstanding Debtors to Revenue	23.40%	19.37%
Liquidity Management:		
Liquidity Ratio	1.35	1.51

3. OPERATING RESULTS

The services offered by Letsemeng Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2014 are as follows:

DETAILS	Actual 2013/14 R	Actual 2012/13 R	Percentage Variance %	Budgeted 2013/14 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	621,170,626	614,112,087	1.15	-	100.00
Operating income for the year	130,107,897	115,249,432	12.89	97,732,488	33.13
Appropriations for the year	-	1,961,958	(100.00)	-	-
	751,278,522	731,323,478	2.73	97,732,488	668.71
Expenditure:					
Operating expenditure for the year	109,407,130	109,798,406	(0.36)	113,036,643	(3.21)
Sundry transfers	-	354,446	(100.00)	-	-
Closing surplus / (deficit)	632,848,374	621,170,626	1.88	(15,304,155)	(4,235.14)
	742,255,504	731,323,478	1.49	97,732,488	659.48

4. RECONCILIATION OF BUDGET TO ACTUAL

4.1 Operating Budget:

DETAILS	2014	2013
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(15,304,155)	164,354,850
Revenue variances	32,375,409	(534,423,145)
Expenditure variances:		
Employee Related Costs	7,583,437	123,527,886
Remuneration of Councillors	(2,270)	11,503,493
Collection Costs	(244,109)	100,000
Depreciation and Amortisation	(18,211,435)	24,214,298
Impairment Losses	6,120,556	26,992,963
Repairs and Maintenance	5,123,833	64,067,394
Interest Paid	(288,727)	(1,427,335)
Bulk Purchases	49,472	86,246,602
Contracted Services	(128,705)	9,856,924
Grants and Subsidies Paid	126,347	26,424,838
General Expenses	3,501,113	4,012,259
Loss on disposal of Property, Plant and Equipment	-	-
Actual surplus before appropriations	20,700,767	5,451,026

DETAILS	2014	2013
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(15,304,155)	1,077,237
Executive and Council	6,026,128	5,891,137
Finance and Administration	8,078,614	(19,267,328)
Planning and Development	(768,647)	(1,478,476)
Health	-	-
Community and Social Services	1,828,400	536,707
Housing	(81,036)	(138,674)
Public Safety	816,893	232,224
Sport and Recreation	828,360	505,752
Environmental Protection	8,755	(64,282)
Waste Management	3,002,154	(1,281,806)
Roads and Transport	(498,908)	1,285,918
Water	6,721,733	(1,497,812)
Electricity	(10,442,981)	(277,676)
Other	20,485,456	19,928,104
Actual surplus before appropriations	20,700,767	5,451,026

5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2014 amounted to R642,653,570 (30 June 2013: R632,215,757) and is made up as follows:

Capital Replacement Reserve	-
Capitalisation Reserve	-
Donations and Public Contributions Reserve	2,022,113
Government Grants Reserve	-
Accumulated Surplus	640,631,458
	<u>642,653,570</u>

The Donations and Public Contributions Reserve is utilised to offset the cost of depreciation of assets funded from Contributions from Public over the lifespan of such assets. Amounts equal to the cost of assets acquired from Public Contributions are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 18 and the Statement of Change in Net Assets for more detail.

6. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R8,701,332 as at 30 June 2014 (30 June 2013: R11,281,000) and is made up as follows:

Post-retirement Health Care Benefits Liability	7,028,795
Long Service Awards Liability	1,672,537
	<u>8,701,332</u>

The Post-retirement Health Care Benefits Liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

The Long-term Service Liability is an estimate of the long-service based on historical staff turnover. No other long-term service benefits are provided to employees. This liability is unfunded.

Refer to Note 16 for more detail.

7. NON-CURRENT PROVISIONS

Non-current Provisions amounted R10,187,800 as at 30 June 2014 (30 June 2013: R9,698,972) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	10,187,800
	<u>10,187,800</u>

These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 17 for more detail.

8. CURRENT LIABILITIES

Current Liabilities amounted R24,758,047 as at 30 June 2014 (30 June 2013: R12,977,604) and is made up as follows:

Consumer Deposits	Note 10	744,824
Provisions	Note 11	987,353
Payables from Exchange Transactions	Note 12	1,116,548
Payables from Non-exchange Transactions	Note 13	8,195,996
Unspent Conditional Grants and Receipts	Note 14	13,713,326
		<u>24,758,047</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R626,650,317 as at 30 June 2014 (30 June 2013: R624,634,210).

Refer to Note 7.

10. INTANGIBLE ASSETS

The net value of Intangible Assets were R199,211 as at 30 June 2014 (30 June 2013: R135,081).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 .

LETSEMENG MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	Note	Actual	
		2014 R	2013 Restated R
ASSETS			
Current Assets		59,451,222	41,404,040
Inventories	2	373,198	373,238
Receivables from Exchange Transactions	3	8,099,239	4,064,086
Receivables from Non-exchange Transactions	4	15,818,275	12,967,459
VAT Receivable	5	1,759,227	4,427,635
Cash and Cash Equivalents	6	33,401,281	19,571,623
Non-Current Assets		626,849,528	624,769,291
Property, Plant and Equipment	7	626,650,317	624,634,210
Intangible Assets	8	199,211	135,081
Total Assets		686,300,749	666,173,331
LIABILITIES			
Current Liabilities		24,758,047	12,977,604
Consumer Deposits	10	744,824	614,860
Provisions	11	987,353	1,143,886
Payables from Exchange Transactions	12	1,116,548	150,461
Total Assets and Liabilities		642,653,570	632,215,755
NET ASSETS		642,653,570	632,215,757
Accumulated Surplus / (Deficit)	18	642,653,570	632,215,757
Total Net Assets		642,653,570	632,215,757

LETSEMENG MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

	Note	Actual	
		2014 R	2013 Restated R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	19	9,472,791	7,295,013
Fines	20	48,520	55,510
Licences and Permits	21	923	1,399
Government Grants and Subsidies Received	22	78,310,498	77,839,935
Public Contributions and Donations	23	-	1,934,147
Revenue from Exchange Transactions			
Service Charges	24	37,544,476	23,413,848
Rental of Facilities and Equipment	25	268,473	288,552
Interest Earned - External Investments	26	3,717,802	3,427,176
Dividends Received	27	3,059	10,607
Other Revenue	28	726,918	975,645
Other Gains on Continued Operations	39	14,436	7,600
Total Revenue		130,107,897	115,249,432
EXPENDITURE			
Employee Related Costs	29	23,531,297	29,336,703
Remuneration of Councillors	30	3,190,517	2,980,317
Collection Costs		396,521	-
Depreciation and Amortisation	31	18,248,545	19,976,740
Impairment Losses	32	5,433,125	5,200,917
Repairs and Maintenance	33	2,904,983	2,348,350
SURPLUS / (DEFICIT) FOR THE YEAR		20,700,767	5,451,026
Refer to Budget Statement for explanation of budget variances		0.00	

LETSEMENG MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

Description	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R	R
2013			
Balance at 30 June 2012	-	614,220,538	614,220,538
Change in Accounting Policy (Note N/A)	-	-	-
Correction of Error (Note 40)	-	(354,446)	(354,446)
Restated Balance	-	613,866,092	613,866,092
Surplus / (Deficit) for the year		5,451,026	5,451,026
Contributions to Funds and Reserves		-	-
Interest allocated to Funds and Reserves		-	-
Donated / Contributed PPE		3,875,619	3,875,619
Grants utilised to obtain PPE		-	-
Funds and Reserves utilised to finance PPE		-	-
Asset disposals	-	-	-
Offsetting of Depreciation	-	-	-
Balance at 30 June 2013	-	632,215,757	632,215,757
2014			
Change in Accounting Policy (Note N/A)		-	-
Correction of Error (Note 40)		250,764	250,764
Restated Balance	-	632,466,521	632,466,521
Surplus / (Deficit) for the year		20,700,767	20,700,767
Net gains / (losses) not recognised in the Statement of Financial Performance		-	-
Changes in revaluation of Property, Plant & Equipment	-	-	-
Contributions to Funds and Reserves		-	-
Interest allocated to Funds and Reserves		-	-
Donated / Contributed PPE		-	-
Grants utilised to obtain PPE		-	-
Funds and Reserves utilised to finance PPE		-	-
Insurance claims processed		-	-
Contributions to indigent subsidies	-	(10,513,718)	(10,513,718)
Offsetting of Depreciation	-	-	-
Balance at 30 June 2014	-	642,653,570	642,653,570

Details on the movement of the Funds and Reserves are set out in Note 18.

LETSEMENG MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	Actual	
		2014 R	2013 Restated R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates	19	5,590,037	5,116,267
Government Grant and Subsidies	22	90,145,100	78,224,229
Public Contributions and Donations	23	-	1,934,147
Service Charges	24	28,007,103	19,019,544
Interest Received	26	3,717,802	3,427,176
Dividends Received	27	3,059	10,607
Other Receipts	28	3,857,642	(813,319)
Payments			
Employee Related Costs	29	(26,267,497)	(32,748,371)
Remuneration of Councillors	30	(3,190,517)	(2,980,317)
Interest Paid	34	(585,176)	(1,427,335)
Suppliers Paid	36	(5,055,915)	(25,311,860)
Other Payments	38	(47,355,898)	(27,032,739)
NET CASH FLOWS FROM OPERATING ACTIVITIES		48,865,741	17,418,030
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	7	(32,828,966)	(20,494,936)
Purchase of Intangible Assets	8	(114,946)	(143,223)
Proceeds on Disposal of Property, Plant and Equipment		-	-
		0.00	0.00
Cash and Cash Equivalents at Beginning of Period		17,627,472	20,699,581
Cash and Cash Equivalents at End of Period		33,401,281	17,627,472

LETSEMENG MUNICIPALITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2014

30 June 2014

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
FINANCIAL POSITION							
Current Assets							
Inventories	1,184,000	1,184,000	1,184,000	373,198	(810,802)	31.52	31.52
Receivables from Exchange Transactions	4,270,000	4,270,000	4,270,000	8,099,239	3,829,239	189.68	189.68
Receivables from Non-exchange Transactions	13,853,000	13,853,000	13,853,000	15,818,275	1,965,275	114.19	114.19
VAT Receivable	-	-	-	1,759,227	1,759,227	0.00	0.00
Cash and Cash Equivalents	22,477,000	22,477,000	22,477,000	33,401,281	10,924,281	148.60	148.60
Current Portion of Long-term Receivables	1,563,000	1,563,000	1,563,000	-	(1,563,000)	0.00	0.00
Non-Current Assets							
Property, Plant and Equipment	626,159,000	626,159,000	626,159,000	626,650,317	491,317	100.08	100.08
Intangible Assets	246,000	246,000	246,000	199,211	(46,789)	80.98	80.98
Total Assets	669,752,000	669,752,000	669,752,000	686,300,749	16,548,749	102.47	102.47
Current Liabilities							
Total Liabilities	18,579,000	18,579,000	18,579,000	43,647,180	25,068,180	234.93	234.93
Total Assets and Liabilities	651,173,000	651,173,000	651,173,000	642,653,570	(8,519,430)	98.69	98.69
Net Assets (Equity)							
Accumulated Surplus / (Deficit)	608,701,000	608,701,000	608,701,000	642,653,570	33,952,570	105.58	105.58
Total Net Assets	608,701,000	608,701,000	608,701,000	642,653,570	33,952,570	105.58	105.58
	42,472,000	42,472,000	42,472,000	(1)	(42,472,001)		

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Inventories:

The inventory consisted mostly of consumable used for repairs and maintenance of the municipality. Due to inventory being old it was measured at lower of cost and net realisable value. The

Receivables from Exchange Transactions:

Bad Debts provision was less than budgeted for.

Receivables from Non-exchange Transactions:

Under budgeted for Assessment Rates Debtors.

VAT Receivable:

Claims for Input VAT not yet paid by SARS.

Current Portion of Long-term Receivables:

Over budgeted for, lease liabilities expired during the year.

Property, Plant and Equipment:

Did not budget for Roll-over Projects from 2012/13.

Intangible Assets:

Over budgeted for Intangible Assets.

Consumer Deposits:

More deposits was received than was budgeted for.

Provisions:

Over budgeted for as staff turnover took place which affected the provision.

Payables from Exchange Transactions:

Was not budgeted for

Payables from Non-exchange Transactions:

Payables from Non-exchange Transactions was less than expected.

Unspent Conditional Grants and Receipts:

Did not budget for Roll-over Projects funded from Grants.

Retirement Benefit Liabilities:

Did not budget for Retirement Benefit Liabilities.

Non-current Provisions:

Did not budget for Non-current Provisions.

Accumulated Surplus / (Deficit):

Surplus for the current financial year exceeded the budgeted surplus.

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE							
Revenue from Non-exchange Transactions							
Property Rates	6,739,000	6,739,000	6,739,000	9,472,791	2,733,791	140.57	140.57
Fines	88,106	88,107	88,107	48,520	(39,587)	55.07	55.07
Licences and Permits	5,553	5,553	5,553	923	(4,630)	16.63	16.63
Government Grants and Subsidies Received	52,778,030	50,861,538	50,861,538	54,376,181	3,514,643	106.91	103.03
Revenue from Exchange Transactions							
Service Charges	35,770,138	35,770,138	35,770,138	37,544,476	1,774,338	104.96	104.96
Rental of Facilities and Equipment	401,601	401,602	401,602	268,473	(133,129)	66.85	66.85
Interest Earned - External Investments	3,000,000	3,000,000	3,000,000	3,717,802	717,802	123.93	123.93
Dividends Received	25,000	25,000	25,000	3,059	(21,941)	12.24	12.24
Other Income	841,650	841,550	841,550	726,918	(114,632)	86.38	86.37
Other Gains on Continued Operations	-	-	-	14,436	14,436	0.00	0.00
Total Revenue	99,649,078	97,732,488	97,732,488	106,173,580	8,441,092	108.64	106.55
Expenditure							
Employee Related Costs	32,525,913	31,114,734	31,114,734	23,531,297	(7,583,437)	75.63	72.35
Remuneration of Councillors	3,378,247	3,188,247	3,188,247	3,190,517	2,270	100.07	94.44
Collection Costs	152,413	152,412	152,412	396,521	244,109	260.16	260.16
Depreciation and Amortisation	37,110	37,110	37,110	18,248,545	18,211,435	49,174.20	49,174.52
Impairment Losses	11,553,680	11,553,681	11,553,681	5,433,125	(6,120,556)	47.03	47.03
Repairs and Maintenance	7,958,025	8,028,816	8,028,816	2,904,983	(5,123,833)	36.18	36.50
Finance Costs	126,448	296,449	296,449	585,176	288,727	197.40	462.78
Bulk Purchases	20,713,403	22,713,403	22,713,403	22,663,931	(49,472)	99.78	109.42
Contracted Services	6,697,417	4,524,986	4,524,986	4,653,691	128,705	102.84	69.48
Grants and Subsidies Paid	2,735,648	6,745,648	6,745,648	6,619,301	(126,347)	98.13	241.96
General Expenses	23,436,415	24,681,156	24,681,156	21,180,043	(3,501,113)	85.81	90.37
Total Expenditure	109,314,719	113,036,643	113,036,643	109,407,130	(3,629,514)	96.79	100.08
Surplus/(Deficit)	(9,665,641)	(15,304,155)	(15,304,155)	(3,233,550)	12,070,605	0.00	0.00
Surplus/(Deficit for the Year)	(9,665,641)	(15,304,155)	(15,304,155)	20,700,767	36,004,922	-	-

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

Increase in the rates was not budgeted for

Fines:

Fines issued/paid exceeded budgetary expectations.

Licences and Permits:

The income was not expected.

Government Grants and Subsidies Received:

Government Grants and Subsidies Received was more than expected.

Service Charges:

Charges was inline with budget

Rental of Facilities and Equipment:

Rental income was less than expected

Interest Earned - External Investments:

Interest Earned exceeded the budgetary expectations due to unspent grants invested.

Dividends Received:

Less dividends was declared than budgeted for.

Other Income:

Other Income received exceeded budgetary expectations.

Other Gains on Continued Operations:

The increase in share value was not expected to be so high.

Employee Related Costs:

Lower than expected

Collection Costs:

The amount was more than that was expected to pursue debtors.

Depreciation and Amortisation:

Depreciation and Amortisation increased beyond budgetary expectations. Amount was not sufficiently considered

Impairment Losses:

Expectation was exceeded.

Finance Costs:

The amount is not material.

Grants and Subsidies Paid:

Over budgeted for Indigent Subsidies paid.

General Expenses :

Over budgeted for General Expenses.

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
FINANCIAL POSITION							
Current Assets							
Revenue from Non-exchange Transactions							
Property Rates	32,307,437	38,233,139	6,381,783	7,295,013	913,230	114.31	22.58
Fines	1,189,079	1,307,538	83,848	55,510	(28,338)	66.20	4.67
Licences and Permits	76,855	80,000	5,048	1,399	(3,649)	27.72	1.82
Income for Agency Services	6,347,313	6,633,990	-	-	-	0.00	0.00
Government Grants and Subsidies Received	400,384,917	522,335,998	56,085,240	53,085,479	(2,999,761)	94.65	13.26
Public Contributions and Donations	(8,000)	15,837,856	(62,500)	1,934,147	1,996,647	0.00	0.00
Revenue from Exchange Transactions							
Service Charges	186,566,938	214,189,011	40,981,180	23,413,848	(17,567,332)	57.13	12.55
Rental of Facilities and Equipment	816,205	778,735	377,946	288,552	(89,394)	76.35	35.35
Interest Earned - External Investments	13,000,000	17,000,000	1,286,449	3,427,176	2,140,727	266.41	26.36
Interest Earned - Outstanding Debtors	2,120,000	2,157,100	-	-	-	0.00	0.00
Dividends Received	-	-	19,025	10,607	(8,418)	55.75	0.00
Other Income	2,705,066	4,517,184	286,289	975,645	689,355	340.79	36.07
Other Gains on Continued Operations	-	-	-	7,600	7,600	0.00	0.00
Profit on Sale of Land	4,166,767	4,000,000	-	-	-	0.00	0.00
Total Revenue	649,672,577	827,070,551	105,444,308	90,494,976	(14,949,332)	85.82	13.93
Expenditure							
Employee Related Costs	152,864,589	169,991,999	32,495,725	29,336,703	(3,159,022)	90.28	19.19
Remuneration of Councillors	14,483,810	15,180,875	3,661,823	2,980,317	(681,506)	81.39	20.58
Collection Costs	100,000	185,000	135,502	-	(135,502)	0.00	0.00
Depreciation and Amortisation	44,191,038	58,226,865	1,262,690	19,976,740	18,714,050	1,582.08	45.21
Impairment Losses	32,193,880	39,322,142	9,474,833	5,200,917	(4,273,916)	54.89	16.15
Repairs and Maintenance	66,415,744	56,196,441	6,014,463	2,348,350	(3,666,113)	39.05	3.54
Finance Costs	-	-	64,842	1,427,335	1,362,493	2,201.25	0.00
Bulk Purchases	106,200,000	131,340,000	20,520,000	19,953,398	(566,602)	97.24	18.79
Contracted Services	13,828,009	18,693,578	6,897,060	3,971,085	(2,925,974)	57.58	28.72
Grants and Subsidies Paid	29,185,553	31,880,331	2,254,229	2,760,715	506,486	122.47	9.46
General Expenses	25,855,104	43,268,027	21,585,904	21,842,845	256,941	101.19	84.48
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	0.00	0.00
Total Expenditure	485,317,727	564,285,258	104,367,071	109,798,406	5,431,335	105.20	22.62
Surplus/(Deficit)	164,354,850	262,785,293	1,077,237	(19,303,429)	(20,380,667)	0.00	0.00
Transfers Recognised - Capital	-	-	-	24,754,456	24,754,456	0.00	0.00
Surplus/(Deficit) after Capital Transfers and Surplus/(Deficit) for the Year	164,354,850	262,785,293	1,077,237	5,451,026	4,373,789	506.02	3.32
	164,354,850	262,785,293	1,077,237	5,451,026	4,373,789	506.02	3.32

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

(Give short explanation of the main reason(s) for deviation here)

Fines:

Fines issued/paid exceeded budgetary expectations.

Income for Agency Services:

Income for Agency Services exceeded budgetary expectations.

Government Grants and Subsidies Received:

Capital Transfers below are included in the budget for Government Grants and Subsidies Received.

Interest Earned - External Investments:

Interest Earned exceeded the budgetary expectations due to unspent grants invested.

Interest Earned - Outstanding Debtors:

It was budgeted only for the portion of interest expected to be paid by debtors.

Other Income:

Other Income received exceeded budgetary expectations.

Collection Costs:

The amount is not material.

Depreciation and Amortisation:

Depreciation and Amortisation increased beyond budgetary expectations because of the review of remaining useful lives of assets.

Impairment Losses:

Under budgeted for Impairment Losses on Receivables.

Finance Costs:

The amount is not material.

Grants and Subsidies Paid:

Over budgeted for Indigent Subsidies paid.

General Expenses :

Over budgeted for General Expenses.

Transfers Recognised - Capital:

Capital Transfers are included in the budget for Government Grants and Subsidies Received above.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1.1 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 7.1 on Financial Assets Classification and Accounting Policy 7.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

1.2.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4.2 and 5.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.2.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 6 on Impairment of Assets, Accounting Policy 4.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 8.2 on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Property, Plant and Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventory are disclosed in Notes 2, 7, 8, N/A and 9 to the Annual Financial Statements, if applicable.

1.2.6 Water Inventory

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 8.2.2.

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 11.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

1.2.8 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1.2.9 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a *Going Concern Basis*.

1.5 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 20 Related Party Disclosures (Revised)
- GRAP 32 Service Concession Arrangement Grantor
- GRAP 105 Transfers between Entities under common control - issued November 2010
- GRAP 106 Transfers between Entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010
- GRAP 108 Statutory Receivables

The Minister of Finance announced that the application of GRAP 25 will be effective for the period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2. NET ASSETS

Included in the Net Assets of the municipality are the following Reserves that are maintained in terms of specific requirements:

2.1 Accumulated Surplus

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

2.1.1 Donations and Public Contributions Reserve

When items of Property, Plant and Equipment are financed from public contributions and donations, a transfer is made from the Accumulated Surplus/(Deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (Circular No 18) issued by National Treasury. When such items of Property, Plant and Equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the Accumulated Surplus/(Deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of Property, Plant and Equipment financed from donations and public contributions.

When an item of Property, Plant and Equipment financed from donations and public contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as Property, Plant and Equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of Property, Plant and Equipment, they are accounted for as Property, Plant and Equipment.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

3.2 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

Asset Class	Years	Asset Class	Years
Buildings		Community	
Improvements	5 - 50	Buildings	30
		Recreational Facilities	20 -30
Infrastructure		Security	3 - 5
Electricity	10 - 15	Other	
Roads and Paving	3 - 18	Computer Equipment	3 - 5
Sewerage / Solid Waste	5 - 40	IT Equipment	4 - 5
Water	5 - 40	Furniture and Fittings	7 - 10
Infrastructure		Motor Vehicles	
Landfill sites	5 - 15	Specialised vehicles	10 - 15
		Other vehicles	3
		Office Equipment	3 - 7
		Plant and Equipment	5 - 25
		Bins and containers	5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

3.5 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

3.6 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.7 Leased Assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.8 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

4. INTANGIBLE ASSETS

The municipality changed its Accounting Policy from GRAP 102 to GRAP 31 with no effect on the financial information previously disclosed.

4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an Intangible Asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated Intangible Assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as Intangible Assets when the following criteria are fulfilled:

- (a) It is technically feasible to complete the Intangible Asset so that it will be available for use;
- (b) Management intends to complete the Intangible Asset and use or sell it;
- (c) There is an ability to use or sell the Intangible Asset;
- (d) It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- (e) Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- (f) The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a *Straight-line Basis* over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

Amortisation only commences when the asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

	Asset Class	Years		Asset Class	Years
	Computer Software	3			

Intangible Assets are annually tested for impairment as described in Accounting Policy 6 on Impairment of Assets, including Intangible Assets not yet available for use. Where items of Intangible Assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable service amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a Change in Accounting Estimate in the Statement of Financial Performance.

4.3 Derecognition

Intangible Assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an Intangible Asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5. INVESTMENT PROPERTY

5.1 Initial Recognition

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non-exchange transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- (b) Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- (d) A property owned by the municipality and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-current Assets Held-for-Sale, as appropriate:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- (b) Property being constructed or developed on behalf of third parties;
- (c) Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- (d) Property that is leased to another entity under a finance lease;
- (e) Property held to provide goods and services and also generates cash inflows; and
- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

5.2 Subsequent Measurement

Investment Property is measured using the *Cost Model* and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the *Straight-line Method* over the useful life of the property, which is estimated at 5 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5.3 Derecognition

An Investment Property shall be derecognised (eliminated from the Statement of Financial Position) on disposal or when the Investment Property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Share investments	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Call Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

7.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

7.3 Initial and Subsequent Measurement

7.3.1 Financial Assets:

Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as *Financial Assets at Amortised Cost*.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial

7.3.2 Financial Liabilities:

Financial Liabilities measured at Fair Value

Financial Liabilities at Fair Value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

7.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

7.4.1 Financial Assets at Amortised Cost

Accounts Receivable encompass Long-term Debtors, Receivables from Exchange Transactions (Consumer Debtors) and Receivables from Non-exchange Transactions (Other Debtors).

Initially Accounts Receivable are valued at fair value excluding transaction costs, and subsequently carried at amortised cost using the *Effective Interest Rate Method*. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

7.4.2 Financial Assets at Cost

If there is objective evidence that an impairment loss has been incurred on an investment in a Residual Interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the Financial Asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

7.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

7.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

8. INVENTORIES

8.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

8.2 Subsequent Measurement

8.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the *FIFO* cost of commodities.

8.2.2 Water Inventory

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the *FIFO Method*, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

8.2.3 Other Arrangements

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the Inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

9. REVENUE RECOGNITION

9.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

9.2 Revenue from Exchange Transactions

9.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

9.2.2 Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised as an unutilised portion based on an estimate of the prepaid electricity consumed as at the reporting date.

9.2.3 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

9.2.4 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

9.2.5 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

9.2.6 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

9.2.7 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

9.2.8 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

9.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

9.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

9.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable, considering the allowance in terms of IGRAP 1 to use estimates to determine the amount of revenue that the municipality is entitled to collect.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

9.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

9.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

9.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

10. PROVISIONS

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

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

10.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

11. EMPLOYEE BENEFIT LIABILITIES

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 with no effect on the financial information previously disclosed.

11.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

11.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

11.2.1 Defined Contribution Plans

A **Defined Contribution Plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

11.2.2 Defined Benefit Plans

A **Defined Benefit Plan** is a post-employment benefit plan other than a defined contribution plan.

Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the *Projected Unit Credit Method*, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the *Projected Unit Credit Method*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

12. LEASES

12.1 Classification

Leases are classified as **Finance Leases** where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as **Operating Leases**.

12.2 The Municipality as Lessee

12.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

12.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a *Straight-line Basis*, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

13. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

14. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

15. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

16. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

18. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

19. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

20. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

21. RELATED PARTIES

The municipality changed its Accounting Policy from IPSAS 20 to GRAP 20 with no effect on the financial information previously disclosed.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

22. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

LETSEMENG MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

23. COMPARATIVE INFORMATION

23.1 Current Year Comparatives

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

23.2 Prior Year Comparatives

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

23.3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2013 to 30 June 2014.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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1. GENERAL INFORMATION

Letsemeng Local Municipality (the municipality) is a local government institution in Koffiefontein, Free State Province. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

Maintenance Materials	354,115	354,115
Water	19,084	19,123
Total Inventories	<u>373,198</u>	<u>373,238</u>
Maintenance Materials		
Balance at beginning of year	373,238	1,161,538
Sale/usage of inventory	(33,053)	5,194
Stock adjustment	-	(807,424)
Purchases made	13,930	13,930
Balance at end of year	<u>354,115</u>	<u>373,238</u>
Water		
Balance at beginning of year	19,123	22,212
Sale of inventory	(4,790,211)	(4,023,069)
Expenditure incurred	4,790,172	4,019,980
Balance at end of year	<u>19,084</u>	<u>19,123</u>

No Inventories have been pledged as collateral for Liabilities of the municipality.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R	
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS			
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Service Debtors:	30,730,041	22,911,370	7,818,670
Electricity	2,435,979	1,666,835	769,143
Refuse	8,730,937	6,827,185	1,903,752
Sewerage	8,906,955	6,936,688	1,970,267
Water	9,980,985	7,480,662	2,500,324
Other service	675,184	-	675,184
Other Receivables	967,976	687,407	280,569
Other Debtors	967,976	687,407	280,569
Total Receivables from Exchange Transactions	31,698,017	23,598,777	8,099,239
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2013			
Service Debtors:	21,834,153	19,230,745	2,603,408
Electricity	1,771,302	1,096,639	674,663
Refuse	6,138,015	5,533,196	604,819
Sewerage	6,373,924	5,739,454	634,470
Water	6,887,785	6,217,578	670,207
Other service	663,129	643,879	19,249
Other Receivables	1,460,678	-	1,460,678
Other Debtors	1,460,678	-	1,460,678
Total Receivables from Exchange Transactions	23,294,831	19,230,745	4,064,086

Service debtors - other services include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

Other Receivables are in respect of cash deposits made to Eskom for the supply of electricity and other sundry debtors.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R 2013
R

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2014

	Current	Past Due			Total
	<i>0 - 30 days</i>	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
Electricity:					
Gross Balances	176,400	124,274	108,108	2,027,196	2,435,979
Less: Provision for Impairment	-		-	1,666,835	1,666,835
Net Balances	176,400	124,274	108,108	360,360	769,143
Refuse:					
Gross Balances	230,498	232,886	230,419	8,037,135	8,730,937
Less: Provision for Impairment	-	-	-	6,827,185	6,827,185
Net Balances	230,498	232,886	230,419	1,209,949	1,903,752
Sewerage:					
Gross Balances	250,490	247,650	241,944	8,166,872	8,906,955
Less: Provision for Impairment	-	-	-	6,936,688	6,936,688
Net Balances	250,490	247,650	241,944	1,230,184	1,970,267
Water:					
Gross Balances	523,957	300,696	409,722	8,746,610	9,980,985
Less: Provision for Impairment				7,480,662	7,480,662
Net Balances	523,957	300,696	409,722	1,265,948	2,500,324
Other Services:					
Gross Balances	6,981	8,986	7,841	651,377	675,184
Less: Provision for Impairment	-	-	-		-
Net Balances	6,981	8,986	7,841	651,377	675,184
Other Receivables					
Gross Balances	-	-	-	1,671,976	1,671,976
Less: Provision for Impairment	-	-	-	687,407	687,407
Net Balances	-	-	-	984,570	984,570

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R 2013
R

As at 30 June Receivables of R7,614,915 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	914,492	998,034	29,301,166	31,213,692
Less: Provision for Impairment	-	-	23,598,777	23,598,777
Net Balances	914,492	998,034	5,702,389	7,614,915

As at 30 June 2013

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	403,322	181,633	119,123	1,067,224	1,771,302
Less: Provision for Impairment	54,621	46,061	47,856	948,101	1,096,639
Net Balances	348,701	135,572	71,267	119,123	674,663

Refuse:

Gross Balances	669,744	194,907	169,769	5,103,595	6,138,015
Less: Provision for Impairment	143,913	143,189	142,499	5,103,595	5,533,196
Net Balances	525,831	51,718	27,270	-	604,819

Sewerage:

Gross Balances	692,506	198,434	176,413	5,306,570	6,373,924
Less: Provision for Impairment	144,906	144,085	143,893	5,306,570	5,739,454
Net Balances	547,601	54,349	32,520	-	634,470

Water:

Gross Balances	761,004	272,519	184,442.80	5,669,819	6,887,785
Less: Provision for Impairment	213,065	162,725	171,968	5,669,819	6,217,578
Net Balances	547,939	109,794	12,475	-	670,207

Other Receivables:

Gross Balances				1,460,678	1,460,678
Less: Provision for Impairment					-
Net Balances	-	-	-	1,460,678	1,460,678

As at 30 June Receivables of R2,074,765 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	847,492	649,748	18,607,886	20,105,126
Less: Provision for Impairment	496,061	506,216	17,028,085	18,030,362
Net Balances	351,432	143,532	1,579,801	2,074,765

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
3.2 Summary of Receivables from Exchange Transactions by Customer Classification		
	Household	Industrial/ Commercial
	R	R
		National and Provincial Government
		R
		Other
		R
As at 30 June 2014		
<i>Current:</i>		
0 - 30 days	909,090	126,222
		153,076
<i>Past Due:</i>		
31 - 60 Days	723,000	68,998
61 - 90 Days	776,171	50,722
+ 90 Days	22,304,454	1,496,447
Sub-total	<u>24,712,716</u>	<u>1,742,389</u>
Less: Provision for Impairment	18,955,375	355,973
Total Trade Receivables by Customer Classification	<u>5,757,341</u>	<u>1,386,417</u>
		<u>984,344</u>
		<u>325</u>

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2013				
<i>Current:</i>				
0 - 30 days	2,217,051	716,795	316,790	-
<i>Past Due:</i>				
31 - 60 Days	753,619	357,762	131,107	-
61 - 90 Days	651,151	337,464	79,221	-
+ 90 Days	16,145,634	7,898,894	510,392	-
Sub-total	<u>19,767,455</u>	<u>9,310,915</u>	<u>1,037,510</u>	-
Less: Provision for Impairment	12,200,043	5,746,494	640,329	-
Total Trade Receivables by Customer Classification	<u>7,567,412</u>	<u>3,564,421</u>	<u>397,181</u>	<u>-</u>

	2014 R	2013 R
3.3 Reconciliation of the Provision for Impairment		
Balance at beginning of year	19,230,746	19,374,338
Contribution to allowance	5,502,218	3,641,541
Impairment Losses reversed	-	-
Amounts written off as uncollectable	(1,134,187)	(3,785,133)
Amounts recovered	-	-
Balance at end of year	<u>23,598,777</u>	<u>19,230,746</u>

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment. Refer to details in the accounting policy for further details.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R	
4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS			
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Assessment Rates Debtors	11,924,740	8,714,958	3,209,782
The municipality does not hold deposits or other security for its Receivables.			

None of the Receivables have been pledged as security for the municipality's financial liabilities.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R 2013
R

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2014

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	420,145	457,411	376,059	10,671,126	11,924,740
Less: Provision for Impairment	-	-	-	8,714,958	8,714,958
Net Balances	420,145	457,411	376,059	1,956,168	3,209,782
Grants receivables:					
Gross Balances	12,608,493	-	-	-	12,608,493
Less: Provision for Impairment	-	-	-	-	-
Net Balances	12,608,493	-	-	-	12,608,493

As at 30 June Receivables of R2,789,638 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	457,411	376,059	10,671,126	11,504,596
Less: Provision for Impairment	-	-	8,714,958	8,714,958
Net Balances	457,411	376,059	1,956,168	2,789,638

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R			2013 R	
As at 30 June 2013	Current	Past Due			Total
	<i>0 - 30 days</i>	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
Assessment Rates:					
Gross Balances	247,637	130,070	722,224	6,908,900	8,008,831
Less: Provision for Impairment		18,741	722,224	6,908,900	7,649,865
Net Balances	247,637	111,329	-	-	358,966
Grant receivable:					
Gross Balances	-	-	-	12,608,493	12,608,493
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	12,608,493	12,608,493

As at 30 June Receivables of R12,719,822 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
All Receivables:				
Gross Balances	130,070	722,224	19,517,393	20,369,687
Less: Provision for Impairment	18,741	722,224	6,908,900	7,649,865
Net Balances	111,329	-	12,608,493	12,719,822

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
	2014 R	2013 R
4.2 Reconciliation of Provision for Impairment		
Balance at beginning of year	7,649,865	5,521,815
Impairment Losses recognised	1,031,938	2,128,050
Impairment Losses reversed	-	-
Amounts written off as uncollectable	33,155	-
Amounts recovered	-	-
Balance at end of year	<u>8,714,958</u>	<u>7,649,865</u>

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

5. VAT RECEIVABLE

Vat Receivable	<u>1,759,227</u>	<u>4,427,635</u>
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Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
6. CASH AND CASH EQUIVALENTS		
Current Investments	18,409,289	1,944,151
Bank Accounts	14,991,183	17,626,782
Cash and Cash Equivalents	810	690
Total Bank, Cash and Cash Equivalents	33,401,281	19,571,623

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

6.1 Current Investment Deposits

Call Deposits	-	-
Notice Deposits	18,302,064	1,851,401
Share Investments	107,225	92,750
Total Current Investment Deposits	18,409,289	1,944,151

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5% to 6% (2013: 4.5% to 5.5%) per annum.

Deposits attributable to Unspent Conditional Grants	13,713,326	1,878,724
Deposits attributable to Creditors	1,116,548	65,427
Deposits attributable to Current Provisions	987,353	-
Deposits attributable to Consumer Deposits	744,824	-
Deposits attributable to Rehabilitation of Landfill Site	1,847,238	-
Total Deposits attributable to Commitments of the Municipality	18,409,289	1,944,151

6.2 Bank Accounts

Cash in Bank	14,991,183	17,626,782
Total Bank Accounts	14,991,183	17,626,782

The Municipality has the following bank accounts:

Primary Bank Account

First National Bank - Current Account Number 527115689918 and ABSA Bank - Current Account number 4048034774 :

Cash book balance at beginning of year	17,626,782	8,437,835
Cash book balance at end of year	14,991,183	17,626,782
Bank statement balance at beginning of year	1,901,060	8,501,875
Bank statement balance at end of year	15,032,025	1,901,060

The municipality maintains one cash book for its primary bank account with First National Bank and the ABSA bank account.

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

6.3 Cash and Cash Equivalents

Cash Floats and Advances	810	690
Total Cash on hand in Cash Floats, Advances and Equivalents	810	690

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

7 PROPERTY, PLANT AND EQUIPMENT

30 June 2014

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Other	Total
	R	R	R	R
Carrying values at 01 July 2013	135,273,312	480,902,989	8,457,909	624,634,210
Cost	159,947,019	689,766,345	13,185,233	862,898,597
- Completed Assets	148,361,585	681,859,271	10,761,345	840,982,201
- Under Construction	11,585,434	7,907,074	2,423,888	21,916,396
Correction of error (Note 40)	-	-	-	-
Revaluation	-	-	-	-
Accumulated Impairment Losses	-	-	-	-
Accumulated Depreciation:	(24,673,707)	(208,863,356)	(4,727,324)	(238,264,387)
- Cost	(24,673,707)	(208,863,356)	(4,727,324)	(238,264,387)
- Revaluation	-	-	-	-
Acquisitions	1,721,729	21,666,281	851,256	24,239,266
Borrowing Costs Capitalised	-	-	-	-
Capital under Construction - Additions:	3,797,647	4,792,053	-	8,589,700
- Cost	3,797,647	4,792,053	-	8,589,700
- Borrowing Costs Capitalised	-	-	-	-
Increases in Revaluation	-	-	-	-
Reversals of Impairment Losses	-	-	-	-
Depreciation:	(811,173)	(16,372,254)	(1,014,302)	(18,197,729)
- Based on Cost	(811,173)	(16,372,254)	(1,014,302)	(18,197,729)
- Based on Revaluation	-	-	-	-
Decreases in Revaluation	-	-	-	-
Impairment Losses	-	-	-	-
Capital under Construction - Completed	(11,585,434)	(12,615,130)	-	(24,200,564)
Other Movements	11,585,434	-	-	-
- Cost	11,585,434	-	-	-
- Revaluation	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-
- Accumulated Depreciation	-	-	-	-
- Based on Cost	-	-	-	-
- Based on Revaluation	-	-	-	-
Carrying values at 30 June 2014	139,981,515	478,373,939	8,294,863	626,650,317
Cost	165,466,395	703,609,549	14,036,489	883,112,432
- Completed Assets	161,668,748	703,525,552	11,612,601	876,806,901
- Under Construction	3,797,647	83,997	2,423,888	6,305,532
Revaluation	-	-	-	-
Accumulated Impairment Losses	-	-	-	-
Accumulated Depreciation:	(25,484,880)	(225,235,610)	(5,741,626)	(256,462,116)
- Cost	(25,484,880)	(225,235,610)	(5,741,626)	(256,462,116)
- Revaluation	-	-	-	-

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2013

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Other	Total
	R	R	R	R
Carrying values at 01 July 2012	124,320,719	490,762,344	9,132,898	624,215,961
Cost	148,119,954	682,213,718	12,424,436	842,758,108
- Completed Assets	148,119,954	682,213,718	10,000,548	840,334,220
- Under Construction	-	-	2,423,888	2,423,888
Correction of error (Note 40)	-	-	-	-
Revaluation	-	-	-	-
Accumulated Impairment Losses	-	-	-	-
Accumulated Depreciation:	(23,799,235)	(191,451,374)	(3,291,538)	(218,542,147)
- Cost	(23,799,235)	(191,451,374)	(3,291,538)	(218,542,147)
- Revaluation	-	-	-	-
Acquisitions	241,631	-	760,797	1,002,428
Capital under Construction - Additions:	11,585,434	7,907,074	-	19,492,508
- Cost	11,585,434	7,907,074	-	19,492,508
- Borrowing Costs Capitalised	-	-	-	-
Depreciation:	(874,472)	(17,411,982)	(1,435,786)	(19,722,240)
- Based on Cost	(874,472)	(17,411,982)	(1,435,786)	(19,722,240)
- Based on Revaluation	-	-	-	-
Other Movements	-	(354,447)	-	-
- Cost	-	(354,447)	-	-
- Revaluation	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-
- Accumulated Depreciation	-	-	-	-
- Based on Cost	-	-	-	-
- Based on Revaluation	-	-	-	-
Carrying values at 30 June 2013	135,273,312	480,902,989	8,457,909	624,634,210
Cost	159,947,019	689,766,345	13,185,233	862,898,597
- Completed Assets	148,361,585	681,859,271	10,761,345	840,982,201
- Under Construction	11,585,434	7,907,074	2,423,888	21,916,396
Revaluation	-	-	-	-
Accumulated Impairment Losses	-	-	-	-
Accumulated Depreciation:	(24,673,707)	(208,863,356)	(4,727,324)	(238,264,387)
- Cost	(24,673,707)	(208,863,356)	(4,727,324)	(238,264,387)
- Revaluation	-	-	-	-

None of the tangible assets were pledge as security during the current and previous year.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

7.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

Impairment Losses on Property, Plant and Equipment to the amount of R0 (2013: R0) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 32.

The recoverable service amount of the relevant assets of Property, Plant and Equipment has been determined on the basis of their fair value less cost to sell. The asset has only been partially impaired as it still in use.

7.4 Land and Buildings carried at Fair Value

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

8 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

199,211.16

135,081.33

The movement in Intangible Assets is reconciled as follows:

	Computer Software	Total
Carrying values at 01 July 2013	135,081.33	135,081.33
Cost	837,619.33	837,619.33
Work-in-Progress	-	-
Accumulated Amortisation	-702,538.00	-702,538.00
Acquisitions:	114,945.83	114,945.83
Purchased	114,945.83	114,945.83
Work-in-Progress	-	-
Amortisation:	-	-50,816.00
Purchased	-	-50,816.00
Internally Developed	-	-
Disposals:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-
Transfers:	-	-
At Cost	-	-
Work-in-Progress	-	-
At Accumulated Amortisation	-	-
Carrying values at 30 June 2014	250,027.16	199,211.16
Cost	952,565.16	952,565.16
Work-in-Progress	-	-
Accumulated Amortisation	-702,538.00	-753,354.00
	Computer Software	Total
Carrying values at 01 July 2012	246,358.33	246,358.33
Cost	694,396.33	694,396.33
Work-in-Progress	-	-
Accumulated Amortisation	-448,038.00	-448,038.00
Acquisitions:	143,223.00	143,223.00
Purchased	143,223.00	143,223.00
Amortisation:	-254,500.00	-254,500.00
Purchased	-254,500.00	-254,500.00
Internally Developed	-	-
Carrying values at 30 June 2013	135,081.33	135,081.33
Cost	837,619.33	837,619.33
Work-in-Progress	-	-
Accumulated Amortisation	-702,538.00	-702,538.00

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 31).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
10 CONSUMER DEPOSITS		
Electricity and Water	744,824.07	614,860.18
Total Consumer Deposits	744,824.07	614,860.18
Guarantees held in lieu of Electricity and Water Deposits	1,775,595.98	1,775,595.98

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

11 PROVISIONS		
Annual Bonuses	451,978.09	650,885.54
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 16)	351,156.00	376,000.00
Current Portion of Long-term Service Liability (See Note 16)	184,219.00	117,000.00
Total Provisions	987,353.09	1,143,885.54

The movement in provisions are reconciled as follows:

Current Provisions:

Annual Bonuses:

Balance at beginning of year	650,885.54	423,553.54
Contributions to provision	-198,907.45	-
Expenditure incurred	-	227,332.00
Balance at end of year	451,978.09	650,885.54

Current Portion of Non-Current Provisions:

	Long-term Service R	Post-retirement R
30 June 2014		
Balance at beginning of year	117,000.00	351,156.00
Balance at end of year	184,219.00	351,156.00
	Long-term Service R	Post-retirement R
30 June 2013		
Balance at beginning of year	-	376,000.00
Transfer from non-current	117,000.00	-
Balance at end of year	117,000.00	376,000.00
	2014 R	2013 R

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	R	R
12 PAYABLES FROM EXCHANGE TRANSACTIONS		
Deferred Revenue	50,919.21	150,461.00
Total Payables	<u>1,116,548.08</u>	<u>150,461.00</u>

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The Deferred revenue arises from pre-paid electricity sold in the current year that was not consumed before the end of June 2014.

13 PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Payments received in Advance	1,109,875.95	152,143.45
Staff Bonuses	-	-
Staff Leave Accrued	1,836,473.76	4,271,278.24
Suspense Accounts	404,543.62	-
Unallocated Receipts	-	-
Sundry Deposits	1,462.70	1,859.95
Other Payables	4,843,640.08	4,616,371.10
Total Payables	<u>8,195,996.11</u>	<u>9,041,652.74</u>

Payables from Non-exchange Transactions have been restated to correctly disclose the amount for Suspense Accounts with credit balances, previously recognised as receivables. Refer to Note 42.4 on "Correction of Error" for details of the restatement.

Staff Bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
14 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
14.1 Conditional Grants from Government	13,713,325.86	1,878,723.86
National Government Grants	-	-
Provincial Government Grants	13,713,325.86	1,878,723.86
Total Conditional Grants and Receipts	13,713,325.86	1,878,723.86

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 22 for the reconciliation of Grants from Government and Note 23 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

15 LONG-TERM LIABILITIES

The municipality did not have any liabilities to be classified as Long-term Liabilities in terms of its Accounting Policies and Cash Management Policy at year-end.

Local Registered Stock	-	-
Annuity Loans	-	104,625.74
Finance Lease Liabilities	-	43,394.74
Government Loans	-	-
Other Loans	-	-
Sub-total	-	148,020.48
Less: Current Portion transferred to Current Liabilities:-	-	148,020.48
Local Registered Stock	-	-
Annuity Loans	-	104,625.74
Finance Lease Liabilities	-	43,394.74
Government Loans	-	-
Other Loans	-	-
Total Long-term Liabilities (Neither past due, nor impaired)	-	-

15.1 Summary of Arrangements

The Annuity Loan relates to embedded loans advanced towards the installation of the municipality's communication and access control equipment, is repaid over a period of 3 (2013: 3) years with an interest rate that is linked to the prime lending rate per annum. The Annuity Loan is not secured.

Finance Lease Liabilities relates to Copiers and Security Equipment with lease terms of 2 - 3 (2013: 2 - 3) years. The effective interest rate on Finance Leases is 9% (2013: 9%). Capitalised Lease Liabilities are secured over the items of Copiers and Security Equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014 R		2013 R
The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.				
The obligations under Finance Leases are as follows:				
	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2014 R	2013 R	2014 R	2013 R
Amounts payable under finance leases:				
Within one year	-	45,143	-	45,143.00
In the second to fifth years, inclusive	-	-	-	-
Over five years	-	-	-	-
	<u>-</u>	<u>45,143</u>	<u>-</u>	<u>45,143.00</u>
Less: Future Finance Obligations	-	1,748	-	1,748.00
Present Value of Minimum Lease Obligations	<u>-</u>	<u>43,395</u>	<u>-</u>	<u>43,395.00</u>
Less: Amounts due for settlement within 12 months (Current Portion)			-	-43,395.00
Finance Lease Obligations due for settlement after 12 months (Non-current Portion)			<u>-</u>	<u>-</u>

The municipality has finance lease agreements for the following significant classes of assets:
- Office Equipment

		2014 R		2013 R
16 EMPLOYEE BENEFIT LIABILITIES				
Post-retirement Health Care Benefits Liability		7,028,795.00		9,855,000.00
Long Service Awards Liability		1,672,537.00		1,426,000.00
Total Employee Benefit Liabilities		<u>8,701,332.00</u>		<u>11,281,000.00</u>
16.1 Post-retirement Health Care Benefits Liability				
Balance at beginning of Year		9,855,000.00		13,671,000.00
Contributions to Provision		-376,000.00		-3,816,000.00
Total Post-retirement Health Care Benefits Liability		<u>7,028,795.00</u>		<u>9,855,000.00</u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)		27.00		32.00
In-service Non-members (Employees)		89.00		84.00
Continuation Members (Retirees, widowers and orphans)		14.00		-
Total Members		<u>130.00</u>		<u>116.00</u>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- SALA Pesion Fund
- Free State Municipal Provident Fund
- Free State Municipal Pension Fund
- Metropolitan Pension Fund
- Samwu Providend fund

The Current-service Cost for the year ending 30 June 2014 is estimated to be R434,000, whereas the cost for the ensuing year is estimated to be R434,000 (30 June 2013: R450,000 and R434,000 respectively).

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	8.91%	7.25%
Health Care Cost Inflation Rate	8.19%	6.75%
Net Effective Discount Rate	0.66%	0.47%
Expected Retirement Age - Females	65.00	65.00
Expected Retirement Age - Males	65.00	65.00

Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	9,855,000.00	8,760,000.00
Current service costs	434,000.00	450,000.00
Interest cost	669,667.00	737,000.00
Past-service costs	-779,823.00	-33,000.00
Benefits paid	-376,000.00	-343,000.00
Actuarial losses / (gains)	-2,774,049.00	284,000.00
Total Recognised Benefit Liability	7,028,795.00	9,855,000.00

The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	7,028,795.00	9,855,000.00
Unfunded Accrued Liability	7,028,795.00	9,855,000.00
Total Benefit Liability	7,028,795.00	9,855,000.00

The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	434,000.00	450,000.00
Interest cost	669,667.00	737,000.00
Expected return on plan assets	-376,000.00	-
Actuarial losses / (gains)	-3,578,716.00	-5,000,076.00
Adjustment for Short-term Portion from Previous Year	24,844.00	-2,924.00
Total Post-retirement Benefit included in Employee Related Costs (Note 29)	-2,826,205.00	-3,816,000.00
	-2,450,205.00	

	2014 R	2013 R	2012 R	2011 R	2010 R
The history of experienced adjustments is as follows:					
Present Value of Defined Benefit Obligation	7,380,000	9,426,000	6,404,000	6,019,000.00	6,019,000.00
Fair Value of Plan Assets	-	-	-	-	-
Deficit	7,380,000	9,426,000	6,404,000	6,019,000.00	6,019,000.00
Experienced adjustments on Plan Liabilities	(2,541,000)	217,000	(146,000)	-	-
Experienced adjustments on Plan Assets	-	-	-	-	-

16.2 Long Service Awards Liability

Balance at beginning of year	1,426,000.00	1,426,000.00
Contributions to provision	-	-
Increase due to discounting	246,537.00	-
Total Long Service Awards Liability	1,672,537.00	1,426,000.00

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 30 June 2014 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost for the year ending 30 June 2014 is estimated to be R838,325, whereas the cost for the ensuing year is estimated to be R812 932 (30 June 2013: R972,461 and R838,325 respectively).

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013			
	R	R			
	2014	2013			
	R	R			
The principal assumptions used for the purposes of the actuarial valuations were as follows:					
Discount Rate	8%	7.25%			
Cost Inflation Rate	7%	7.15%			
Net Effective Discount Rate	1%	0.47%			
Expected Retirement Age - Females	63.00	63.00			
Expected Retirement Age - Males	63.00	63.00			
Movements in the present value of the Defined Benefit Obligation were as follows:					
Balance at the beginning of the year	8,284,788.00	7,375,410.00			
Current service costs	838,325.00	972,461.00			
Interest cost	611,092.00	456,563.00			
Benefits paid	-690,100.00	-578,703.00			
Actuarial losses / (gains)	-92,851.00	59,057.00			
Total Recognised Benefit Liability	8,951,254.00	8,284,788.00			
	7,278,717.00	6,858,788.00			
The amounts recognised in the Statement of Financial Position are as follows:					
Present value of fund obligations	8,951,254.00	10,231,000.00			
Unfunded Accrued Liability	8,951,254.00	10,231,000.00			
Total Benefit Liability	8,951,254.00	10,231,000.00			
		1,946,212.00			
The amounts recognised in the Statement of Financial Performance are as follows:					
Current service cost	838,325.00	972,461.00			
Interest cost	611,092.00	456,563.00			
Actuarial losses / (gains)	-92,851.00	59,057.00			
Adjustment for Short-term Portion from Previous Year	-	31,765.00			
Total Post-retirement Benefit included in Employee Related Costs (Note 29)	1,356,566.00	1,519,846.00			
	1,356,566.00	1,519,846.00			
The history of experienced adjustments is as follows:					
	2014	2013	2012	2011	2010
	R	R	R	R	R
Present Value of Defined Benefit Obligation	8,951,254	8,284,788	7,375,410	5,828,258.00	4,872,976.00
Deficit	8,951,254	8,284,788	7,375,410	5,828,258.00	4,872,976.00
Experienced adjustments on Plan Liabilities	(117,352)	321,056	379,886	204,219.00	-

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	R	R
17 NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Land-fill Sites	10,187,800.43	9,698,972.23
Total Non-current Provisions	<u>10,187,800.43</u>	<u>9,698,972.23</u>

Non-current Provisions have been restated to correctly disclose the amount for Long-Service Allowances in terms of GRAP 25, previously recognised as a non-current provision. Refer to **Note 38.4** on "Correction of Error" for details of the restatement.

The movement in the Provision for Rehabilitation of Land-fill Sites is reconciled as follows:

Balance at beginning of year	9,698,971.69	11,211,374.93
Increase due to discounting	488,828.20	465,373.38
Expenditure incurred	-	(1,977,777)
	<u>10,187,799.89</u>	<u>9,698,971.69</u>
Transfer to current provisions	-	-
Balance at end of year	<u>10,187,799.89</u>	<u>9,698,971.69</u>

	Land-fill Sites	
	R	
30 June 2014		
Balance at beginning of year		9,698,972.23
Increase due to discounting		488,828.20
		<u>10,187,800.43</u>
Transfer to current provisions		-
Balance at end of year		<u>10,187,800.43</u>

	Land-fill Sites	
	R	
30 June 2013		
Balance at beginning of year		23,313,303.00
Increase due to discounting		465,373.38
Reduction due to re-measurement		(14,079,704)
		<u>9,698,972.23</u>
Transfer to current provisions		-
Balance at end of year		<u>9,698,972.23</u>

17.1 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs of R10,187,800 (2013: R9,698,972) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

The Provision has been restated at the beginning of the previous financial period due to new information received and change in the discount rate used by the valuers to calculate the net present value of the liability. Refer to note 40

The municipality will incur rehabilitation cost on its five dumping/landfill sites in the periods ranging between 2031/32 and 2038/39. Provision has been made for the net present value of this cost.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014 R	2013 R
	Proposed Rehabilitation		
Jacobsdal landfill	2031/2032	2,848,851.71	2,712,159
Koffiefontein landfill	2038/2039	2,059,342.96	1,960,532
Luckhoff landfill	2028/2029	1,458,599.09	1,388,613
Oppersmansdorp landfill	2032/2033	1,771,415.57	1,686,420
Petrusburg landfill	2033/2034	2,049,591.10	1,951,248
		10,187,800.43	9,698,972.23

18 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Donations and Public Contributions Reserve	2,022,112.52	2,022,112.52
Accumulated Surplus / (Deficit) due to the results of Operations	640,631,457.72	630,193,644.54
Total Accumulated Surplus	642,653,570.24	632,215,757.06

The **Donations and Public Contributions Reserve** equals the carrying value of the items of property, plant and equipment financed from public contributions and donations. The Donations and Public Contributions Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

19 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2014 R000's	July 2013 R000's		
Agricultural	1,671,639	1,493,626	2,280,363.95	2,741,323.00
Commercial	163,187	73,539	2,199,896.00	1,043,412.00
Industrial				-
Municipal	368,086	117,957	-	-
Residential	543,576	341,471	4,067,135.76	2,726,746.00
State	87,817	121,763	925,395.45	783,532.49
Consent Use	-		-	-
Undeveloped	52,579	120,595		-
Total Property Rates	2,886,883	2,268,951	9,472,791.16	7,295,013.49

19.1 Calculation of Cash Flow:

Property Rates Income	9,472,791.16	7,295,013.49
Opening Balance of Debtors: Assessment Rates	8,008,831.08	5,830,084.12
Closing Balance of Debtors: Assessment Rates	-11,924,740.40	-8,008,831.08
Amounts written-off as uncollectable	33,155.01	-
Total Receipts for Property Rates	5,590,036.85	5,116,266.53

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2004. A general valuation has been performed during the financial year and will be applied with effect 1 July 2008.

A uniform rate of 0.41 c/R (2012/13: 0.32 c/R) is applied on property valuations in terms of the Property Rates Act to determine assessment rates.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0.011 c/R (2012/13: 0,09469 c/R)
 Business Properties: 0.012 c/R (2012/13: 1,8937 c/R)
 Agricultural Properties: 0,2367 c/R (2012/13: 0,2367 c/R)

A rebate of 8.33% (2012/13: 7.5%) was allowed on residential properties whilst a discount of 8.33% (2012/13: 7.5%) was granted on properties owned by the State.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

20 FINES

Court Fines	48,520.00	55,510.00
Penalties for Contractors	-	-
Other Fines	-	-
Total Fines	48,520.00	55,510.00

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
21 LICENCES AND PERMITS		
Flammable Material Permits	-	-
Hawkers Licences	-	-
Other Licences and Permits	923.42	1,399.12
Total Licences and Permits	923.42	1,399.12
22 GOVERNMENT GRANTS AND SUBSIDIES		
National Equitable Share	50,434,000.00	50,508,243.00
Other Subsidies	-	0.17
Operational Grants	50,434,000.00	50,508,243.17
Conditional Grants	27,876,498.00	27,331,692.00
National: Equitable Share	-	-
National: EPWP	1,000,000	1,073,750
National: FMG	1,650,000	1,500,000
National: MIG	20,236,372	22,090,000
National: MSIG	890,000	800,000
Provincial: Department Transport	-	78,026
Provincial: Department of Local Government	347,320	712,680
National: DWA - Department of Water Affairs	2,292,181	1,077,236
Local Government: Department of Water	1,460,625	-
Total Government Grants and Subsidies	78,310,498.00	77,839,935.17
Government Grants and Subsidies:		
Conditional Grants - Capital	3,942,181.00	2,577,236.25
Conditional Grants - Operational	23,934,317.00	24,754,455.92
Unconditional Grants - Capital	-	-
Unconditional Grants - Operational	50,434,000.00	50,508,243.00
Total Government Grants and Subsidies	78,310,498.00	77,839,935.17
Summary of Transfers:		
Conditions met - transferred to Revenue: Operating Expenses	3,942,181.00	2,577,236.25
Conditions met - transferred to Revenue: Capital Expenses	23,934,317.00	24,754,456
Total Transfers	27,876,498.00	27,331,692.17
22.1 Calculation of Cash Flow:		
Government Grants and Subsidies Income	78,310,498.00	77,839,935.17
Opening Balance of Unspent Government Grants	-1,878,723.86	-1,494,429.78
Closing Balance of Unspent Government Grants	13,713,325.86	1,878,723.86
Total Receipts for Government Grants and Subsidies	90,145,100.00	78,224,229.25
Operational Grants:		
22.2 National: Equitable Share	50,434,000.00	50,508,243.00
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R166 (2013: R156), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.		
22.3 Provincial: Health Subsidies		
Balance unspent at beginning of year	115,000.00	-
Current year receipts - included in Public Health vote	-	115,000.00
Conditions met - transferred to Revenue	-	-
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Current Assets (see Note 4)	115,000.00	115,000.00
This grant has been used to fund environmental health care services (included in Appendix "D"), which services are in a process of being transferred to Provincial Government. This grant will then fall away. No funds have been withheld.		
Conditional Grants:		
22.4 National: EPWP Grant		
Balance unspent at beginning of year	-	-
Current year receipts	1,000,000.00	1,073,750.00
Conditions met - transferred to Revenue: Operating Expenses	-1,000,000.00	-1,073,750.00
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No amount was withheld during the year.		

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
22.5 National: FMG Grant		
Balance unspent at beginning of year	-	-
Current year receipts	1,650,000.00	1,500,000.00
Conditions met - transferred to Revenue: Operating Expenses	(1,650,000.00)	(1,500,000.00)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
	<u>-</u>	<u>-</u>
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.		
22.6 National: MIG Funds		
Balance unspent at beginning of year	-	-
Current year receipts	20,972,000.00	22,090,000.00
Conditions met - transferred to Revenue: Capital Expenses	(20,236,372)	(22,090,000)
Conditions still to be met - transferred to Liabilities (see Note 14)	735,628.00	-
	<u>735,628.00</u>	<u>-</u>
The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.		
22.7 National: MSIG Funds		
Balance unspent at beginning of year	-	-
Current year receipts	890,000.00	800,000.00
Conditions met - transferred to Revenue: Capital Expenses	(890,000)	(800,000)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
	<u>-</u>	<u>-</u>
The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.		
22.8 National: Cooperative Government & Traditional Affairs (COGTA)		
Balance unspent at beginning of year	347,320.00	-
Current year receipts	-	1,060,000.00
Conditions met - transferred to Revenue: Operating Expenses	(347,320)	(712,680)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	347,320.00
	<u>-</u>	<u>347,320.00</u>
This grant was received for the payment of the CFO's salary. No funds were withheld.		
22.9 National: Department Water Affairs (DWA) - Other Capital Projects		
Balance unspent at beginning of year	-	-
Current year receipts	13,334,000.00	-
Conditions met - transferred to Revenue: Capital Expenses	(2,292,181)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	11,041,819.08	-
	<u>11,041,819.08</u>	<u>-</u>
To facilitate the planning, acceleration and implementation of various projects that will insure water supply to communities identified as not receiving a basic water supply service.		
22.10 Provincial: Accelerated Community Development Programme (ACIP)		
Balance unspent at beginning of year	-	-
Current year receipts	1,865,100.00	-
Conditions met - transferred to Revenue: Operating Expenses	(1,460,625)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	404,475.00	-
	<u>404,475.00</u>	<u>-</u>
The purpose of this grant is for the upgrading of the Koffiefontein sewer pump system.		
23 PUBLIC CONTRIBUTIONS AND DONATIONS		
Conditional Contributions:	-	-
Unconditional Contributions	-	-
Other Donations	-	1,934,146.83
Total Public Contributions and Donations	<u>-</u>	<u>1,934,146.83</u>
23.1 Calculation of Cash Flow:		
Public Contributions and Donations Income	-	1,934,146.83
Opening Balance of Unspent Public Grants	-	-
Closing Balance of Unspent Public Grants	-	-
Total Receipts for Public Contributions and Donations	<u>-</u>	<u>1,934,146.83</u>
Reconciliation of Conditional Public Contributions and Donations:		
24 SERVICE CHARGES		
Sale of Electricity	14,670,985.92	14,037,989.71
Sale of Water	7,395,629.97	4,466,906.51
Refuse Removal	7,755,852.17	2,335,976.16
Sewerage and Sanitation Charges	7,722,007.54	2,572,975.51
Total Service Charges	<u>37,544,475.60</u>	<u>23,413,847.89</u>

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
24.1 Calculation of Cash Flow:		
Service Charges Income	37,544,475.60	23,413,847.89
Opening Balance of Debtors: Service Charges	23,294,831.27	22,685,660.60
Closing Balance of Debtors: Service Charges	(31,698,017)	(23,294,831)
Amounts written-off as uncollectable	(1,134,187)	-3,785,133.00
Total Receipts for Service Charges	<u>28,007,103.25</u>	<u>19,019,544.22</u>
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
25 RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Buildings	206,169.84	258,382.02
Rental Revenue from Halls	62,303.60	30,169.99
Rental Revenue from Land	-	-
Rental Revenue from Other Facilities	-	-
Total Rental of Facilities and Equipment	<u>268,473.44</u>	<u>288,552.01</u>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
26 INTEREST EARNED		
External Investments:		
Bank Account	-	-
Investments	3,717,802.30	3,427,176.30
	<u>3,717,802.30</u>	<u>3,427,176.30</u>
26.1 Calculation of Cash Flow:		
External Interest Income	3,717,802.30	3,427,176.30
Opening Balance of Accrued Interest	-	-
Closing Balance of Accrued Interest	-	-
Total Receipts for Interest Received	<u>3,717,802.30</u>	<u>3,427,176.30</u>
27 DIVIDENDS RECEIVED		
Dividends Received	3,059.20	10,606.91
Other	-	-
Total Dividends Received	<u>3,059.20</u>	<u>10,606.91</u>
28 OTHER REVENUE		
Administration Fees	253,241.77	53,672.33
Building Plan Fees	2,692.06	3,928.63
Cemetery Fees	31,203.78	29,480.53
Certificates	14,784.27	15,457.66
Commission: Garnishee	-	-
Connections	61.05	166.48
Contribution: Prov Dsrac	-	-
Excess Gees	-	-
Photocopies	778.48	2,500.51
Tender Documents	14,035.03	-
Reconnections	86,098.61	114,661.19
Sales : Nature Reserve Stock	-	-
Sales: Sand / Gravel	-	-
Sales: Stone Quarry	-	-
Sales: Stand	-	-
Stationary	-	-
Sundries	321,576.27	755,776.97
Sundry Rentals	-	-
Surplus Cash	2,446.90	0.36
Interdepartmental Charges	-	-
Recovery of Unauthorised, Irregular and Fruitless & Wasteful Expenditure (see Note 48)	-	-
Total Other Revenue	<u>726,918.22</u>	<u>975,644.66</u>

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
		R	R
28.1 Calculation of Cash Flow:			
Income from Other Revenue	Note 28	726,918.22	975,644.66
Income from Interest on Outstanding Debtors	Note 26	-	-
Income from Rental of Facilities and Equipment	Note 25	268,473.44	288,552.01
Income from Licences and Permits	Note 21	923.42	1,399.12
Income from Fines	Note 20	48,520.00	55,510.00
Opening Balance of Debtors: Non-exchange Transactions	Note 4	20,617,324.08	18,463,334.12
Opening Balance of Debtors: Assessment Rates	Note 4	-8,008,831.08	-5,830,084.12
Opening Balance of Accrued Interest	Note 4	-	-
Closing Balance of Debtors: Non-exchange Transactions	Note 4	-24,533,233.40	-20,617,324.08
Closing Balance of Debtors: Assessment Rates	Note 4	11,924,740.40	8,008,831.08
Closing Balance of Accrued Interest	Note 4	-	-
Amounts written-off as uncollectable	Note 4	-	-
Opening Balance of VAT Receivable	Note 5	4,427,634.94	2,314,652.74
Closing Balance of VAT Receivable	Note 5	(1,759,227)	(4,427,635)
Assets transferred to Non-current Assets Held-for-Sale	Note 7	-	-
Opening Balance of Consumer Deposits	Note 10	(614,860)	(668,660)
Closing Balance of Consumer Deposits	Note 10	744,824.07	614,860.18
Total Receipts for Other Revenue		<u>3,843,206.51</u>	<u>-820,918.73</u>
		(14,436)	(7,600)

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 19 to 26, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
29 EMPLOYEE RELATED COSTS		
Employee Related Costs - Salaries and Wages	18,265,624.28	21,256,396.16
Basic Salaries and Wages	17,392,928.31	18,451,074.31
Long Service Bonuses	-	131.63
Leave Encashed	872,695.97	1,144,865.49
Contribution to Leave Fund	-	1,660,324.73
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	3,382,253.55	2,681,360.22
Medical	1,203,962.89	594,421.82
Pension	2,006,120.75	1,922,930.49
Industrial Council Levy	9,283.30	9,222.50
UIF	162,886.61	154,785.41
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	2,055,880.47	2,027,962.39
Allowances	2,055,880.47	2,027,962.39
Housing Benefits and Allowances	337,615.52	351,121.48
Overtime Payments	1,899,945.66	1,770,203.55
Bonuses	127,270.38	-
Defined Benefit Plan Expense:	-2,537,293.00	1,249,659.00
Current Service Cost	727,667.00	770,000.00
Interest Cost	-	-
Net Actuarial (gains)/losses recognised	-3,264,960.00	479,659.00
Total Employee Related Costs	23,531,296.86	29,336,702.80
29.1 Calculation of Cash Flow:		
Employee Related Costs Expenditure	23,531,296.86	29,336,702.80
Opening Balance of Employee Benefit Liabilities	11,281,000.00	15,037,000.00
Closing Balance of Employee Benefit Liabilities	(8,701,332)	(11,281,000)
Opening Balance of Provision for Performance Bonuses	650,885.54	-
Closing Balance of Provision for Performance Bonuses	(451,978)	(650,886)
Opening Balance of Provision for Long-term Service	117,000.00	-
Closing Balance of Provision for Long-term Service	-184,219.00	(117,000)
Opening Balance of Post-retirement Benefits	376,000.00	376,000.00
Closing Balance of Post-retirement Benefits	(351,156)	(376,000)
Total Payments for Employee Related Costs	26,267,497.31	32,324,817.26
Remuneration of Section 57 Employees:		
Remuneration of the Municipal Manager		
Annual Remuneration	616,602.10	789,670.00
Car Allowance	70,824.00	112,109.00
Acting Allowance	39,425.03	-
Other	145,918.73	243,890.00
Total	872,769.86	1,145,669.00
Remuneration of the Chief Financial Officer		
Annual Remuneration	745,544.53	332,667.00
Car Allowance	24,000.00	97,536.00
Contributions to UIF, Medical and Pension Funds	45,203.84	24,000.00
Acting Allowance	59,899.32	59,899.00
Other	57,425.56	198,578.00
Total	932,073.25	712,680.00
The Municipal Manager resigned 28 February 2014. An acting Municipal Manager was appointed on 01 November 2013 (Also CFO at the time). The new Municipal Manager was appointed on 01 July 2014.		
Remuneration of the Manager: Corporate Support Services		
Annual Remuneration	173,966.64	521,900.00
Car Allowance	32,000.00	96,000.00
Contributions to UIF, Medical and Pension Funds	14,523.68	35,832.00
Acting Allowance	112,106.56	-
Other	36,244.98	52,469.00
Total	368,841.86	706,201.00
Remuneration of the Manager: Technical Services		
Annual Remuneration	613,530.06	508,040.00
Car Allowances	148,068.90	144,000.00
Other	21,203.16	38,433.00
Total	782,802.12	690,473.00

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	R	R
30 REMUNERATION OF COUNCILLORS		
Executive Mayor/Speaker	2,586,399.68	2,221,383.36
Councillors	604,117.43	758,933.24
Total Councillors' Remuneration	<u>3,190,517.11</u>	<u>2,980,316.60</u>
Remuneration of Councillors:		
The remuneration of Councillors was based on the upper limits determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of Him by the Remuneration of Public Office Bearers Act No. 20 of 1998.		
31 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	18,197,728.72	19,722,240.00
Amortisation: Intangible Assets	50,816.00	254,500.00
Total Depreciation and Amortisation	<u>18,248,544.72</u>	<u>19,976,740.00</u>

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
32 IMPAIRMENT LOSSES		
<i>32.1 Impairment Losses on Financial Assets</i>		
Impairment Losses Recognised:	6,534,156.05	5,769,591.16
Receivables from Exchange Transactions	5,502,218.00	3,641,541.00
Receivables from Non-exchange Transactions	1,031,938.05	2,128,050.16
Impairment Losses Reversed:	-	-
	6,534,156.05	5,769,591.16
33 REPAIRS AND MAINTENANCE		
Land and Buildings	59,161.16	122,540.52
Infrastructure Assets	2,845,821.99	2,225,809.08
Total Repairs and Maintenance	2,904,983.15	2,348,349.60
34 FINANCE COSTS		
Bank Overdraft	580,661.84	1,371,270.02
Loans and Payables at amortised cost	4,513.69	56,064.91
Total Interest Paid on External Borrowings	585,175.53	1,427,334.93
34.1 Calculation of Cash Flow:		
Finance Cost Expenditure	585,175.53	1,427,334.93
Total Payments for Finance Costs	585,175.53	1,427,334.93
35 BULK PURCHASES		
Electricity	17,499,255.41	15,933,518.52
Water	5,164,675.51	4,019,879.91
Total Bulk Purchases	22,663,930.92	19,953,398.43
36 CONTRACTED SERVICES		
Legal Services	712,677.74	870,653.17
Other Contracted Services	991,346.64	718,949.73
Professional Fees	2,949,667.09	76,541.68
Valuations	-	2,304,940.90
Total Contracted Services	4,653,691.47	3,971,085.48
36.1 Calculation of Cash Flow:		
Expenditure for Contracted Services	4,653,691.47	3,971,085.48
Expenditure for Bulk Purchases	22,663,930.92	19,953,398.43
Expenditure for Repairs and Maintenance	2,904,983.15	2,348,349.60
Opening Balance of Payables: Exchange Transactions	150,461.00	-
Closing Balance of Payables: Exchange Transactions	-1,116,548.08	-150,461.00
Opening Balance of Inventories	-373,237.74	-1,183,750.16
Closing Balance of Inventories	373,198.26	373,237.74
Other Transfers of Assets	-24,200,564.22	-
Total for Suppliers Paid	5,055,914.76	25,311,860.09
37 GRANTS AND SUBSIDIES PAID		
Community Projects	6,619,301.37	2,760,715.40
Total Grants and Subsidies	6,619,301.37	2,760,715.40

Community Projects are in respect of community cultural programs and catering & transport cost of community development workers within the municipality's area of jurisdiction.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
38 GENERAL EXPENSES		
Included in General Expenses are the following:		
Accommodation Cost	682,011.04	733,070.76
Admin Cost	14,331.28	-
Advertising	343,531.60	259,902.72
Bank Charges	159,298.09	124,719.45
Chemicals & Poison	1,647,922.30	2,075,866.50
Compensation Commissioner	297,411.38	546,640.68
Compliance Fees	1,099,997.89	2,845,601.04
Entertainment	384,691.15	300,731.94
External Audit Fees	3,287,449.79	2,976,288.93
Fuel & Oil	933,117.05	1,154,708.83
General Expenses	2,218,068.45	956,518.75
Hire Of Facilities & Equipment	2,549,819.75	1,697,743.11
Loss Control	-	77,820.52
Materials & Stocks	73,655.38	13,929.64
Postage & Telegrams	757,672.33	438,338.26
Special Programmes	576,464.23	156,417.12
Stock Shortages/Surpluses	-	-
Subscriptions	501,497.00	450,415.00
Telephone Cost	2,263,065.77	1,651,030.87
Training	123,046.58	351,915.53
Transport Cost	703,668.95	1,665,275.68
Uniforms & Protective Clothing	161,186.18	80,086.11
Ward Committee Management	77,500.00	335,500.00
Water	289,059.45	227,683.78
Website Hosting	39,708.26	24,161.60
Inter-Departmental Transfers	1,995,869.46	2,698,478.50
Total General Expenses	<u>21,180,043.36</u>	<u>21,842,845.32</u>

38.1 Calculation of Cash Flow:

Expenditure for General Expenses	Note 38	21,180,043.36	21,842,845.32
Expenditure for Grants and Subsidies Paid	Note 37	6,619,301.37	2,760,715.40
Expenditure for Collection Costs		396,520.56	-
Opening Balance of Payables: Non-exchange Transactions	Note 13	9,041,652.74	12,167,212.64
Closing Balance of Payables: Non-exchange Transactions	Note 13	-8,195,996.11	-9,041,652.74
Opening Balance of Non-current Provisions	Note 17	9,698,972.23	12,957,608.81
Closing Balance of Non-current Provisions	Note 17	-10,187,800.43	-9,698,972.23
Correction of Prior Year Errors		-250,764.05	354,446.00
Appropriations to/from Internal Reserves		10,513,717.89	-3,875,619.29
Total for Other Payments		<u>38,815,647.56</u>	<u>27,466,583.91</u>

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

No other extra-ordinary expenses were incurred.

39 OTHER GAINS AND LOSSES

Change in Fair Value of Financial Assets designated as at FVTPL	14,435.52	7,600.00
Change in Fair Value of Financial Assets designated as at FVTPL in the year amounted to R14 475 (2013: R7 600) are attributable to continuing operations (see above). The gain is due to changes in the fair value of share investments held in SENWES and OVK.		

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
40 CORRECTION OF ERROR		
Corrections were made during the previous financial years. Details of the corrections are described below:		
40.1 Restatement of Accumulated Surplus		
The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.		
The effect of the changes are as follows:		Accumulated Surplus
Balances published as at 30 June 2012		614,112,087.00
Correction of Error:-		
Landfill site rehabilitation provision	14,079,704.15	
Recognition of OVK shares	27,800.00	
Restated Balances as at 30 June 2012		628,219,591.15
Transactions incurred for the Year 2012/13		-
Correction of Error:-		
Correction of fair value on shares	2,200.00	
Recognition of payments received in advance on service debtor - Rates	152,143.00	
Reversal of prior period error recognised	-354,446.00	
Recognition of payments received in advance on service debtor - Water	159,063.46	
Recognition of payments received in advance on service debtor - Rates	228,290.40	
Recognition of payments received in advance on service debtor - Electricity	190,392.76	
Correction of interest capitalised to the provision for landfill site rehabilitation	2,332,222.62	
Restated Balances as at 30 June 2013		630,929,457.39

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
41 CASH GENERATED BY OPERATIONS		
Surplus / (Deficit) for the Year	20,700,767.02	5,451,026.47
Adjustment for:		
Depreciation and Amortisation	18,248,544.72	19,976,739.89
Contribution to Post-retirement Health Care Benefits	-400,844.00	-3,813,076.00
Contribution to Long Service Awards Liability	-	-31,765.00
Contribution to Provisions - Current	-198,907.45	-
Expenditure incurred from Provisions - Current	-	227,332.00
Contribution to Impairment Provision	6,534,156.05	5,769,591.16
Bad Debts Written-off	-1,101,032.05	-3,785,133.00
Operating surplus before working capital changes	57,720,294.67	27,315,888.81
Decrease/(Increase) in Inventories	39.48	810,512.42
Decrease/(Increase) in Receivables from Exchange Transactions	-8,403,185.30	-609,170.67
Decrease/(Increase) in Receivables from Non-exchange Transactions	-3,915,909.32	-2,153,989.96
Decrease/(Increase) in VAT Receivable	2,668,407.54	-2,112,982.20
Increase/(Decrease) in Consumer Deposits	129,963.89	-53,799.32
Increase/(Decrease) in Payables from Exchange Transactions	966,087.08	150,461.00
Increase/(Decrease) in Payables from Non-exchange Transactions	-845,656.63	-3,125,559.90
Increase/(Decrease) in Conditional Grants and Receipts	11,834,602.00	384,294.08
Cash generated by / (utilised in) Operations	60,154,643.41	20,605,654.26

42 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (See Note 15)	-	148,020.48
Used to finance Property, Plant and Equipment - at cost	-	-148,020.48
Cash invested for Repayment of Long-term Liabilities	-	-

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

43 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

43.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	47,809,521.00	42,429,654.00
Unauthorised Expenditure current year	7,523,805.50	5,379,867.00
Unauthorised Expenditure awaiting authorisation	55,333,326.50	47,809,521.00

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	
- Executive and Council - R1 127 535 (2013: R0)	To be condoned by Council
- Finance and Administration - R2 307 458 (2013: R4 000 975)	To be condoned by Council
- Planning and Development - R156 717 (2013: R558 878)	To be condoned by Council
- Community and Social Services - R186 994 (2013: R592 763)	To be condoned by Council
- Technical - R0 (2013: R227 251)	To be condoned by Council
- Public Safety - R852 (2013: R0)	To be condoned by Council
- Waste Management - R263 655 (2013: R0)	To be condoned by Council
- Roads and Transport - R1 260 894 (2013: R0)	To be condoned by Council
- Water - R821,085 (2013: R0)	To be condoned by Council (2013: Under investigation)
- Electricity - R251 826 (2013: R0)	
- Other - R1 146 790 (2013: R0)	

43.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	1,095,610.17	740,096.00
Fruitless and Wasteful Expenditure current year	93,892.97	355,514.17
Condoned or written off by Council	-	-
To be recovered – contingent asset (see Note 53)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Fruitless and Wasteful Expenditure awaiting condonement	1,189,503.14	1,095,610.17

Incident	Disciplinary Steps / Criminal Proceedings
Unsatisfactory work (Machikiri Stormwater) - R0 (2013: R260,504)	To be submitted to Council
Legal Cost (MR Thobojane) - R0 (2013: R7,871)	None
Overpayment of contractor - R2,300 (2013: R21,851)	To be recovered from future projects
Interest on late payment - Various Creditors - R0 (2013: R0)	To be submitted to Council (2013: Under investigation)

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

43.3 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:

Opening balance	67,665,993.00	49,004,625.00
Irregular Expenditure current year	8,769,425.56	18,661,368.00
Condoned or written off by Council	-	-
To be recovered – contingent asset (see Note 53)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Irregular Expenditure awaiting condonement	76,435,418.56	67,665,993.00

Incident	Disciplinary Steps / Criminal Proceedings
Expenditure contrary to SCM Processes as described in Note 47.8 - R5,205,252 (2013: R18,661,368)	A report will be adopted by the Executive Committee, condoning the "Irregular Expenditure".
Deviations from SCM procedures not regarded as Irregular Expenditure Note 47.8 - R3,564,174 (-:R0)	

44 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

44.1 Audit Fees

Opening Balance	-	-112,995.00
Current year Audit Fee	2,611,855	3,402,164.00
Amount Paid - current year	-2,611,855	-3,289,169.00
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

44.2 VAT

The net of VAT input payables and VAT output receivables are shown in Note 5. All VAT returns have been submitted by the due

44.3 PAYE, Skills Development Levy and UIF

Opening Balance	-6,349.00	-
Current year Payroll Deductions	3,910,470.51	3,245,107.00
Amount Paid - current year	-3,910,858.67	-3,251,456.00
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-6,737.16	-6,349.00

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
44.4 Pension and Medical Aid Deductions		
Opening Balance	-567,622.00	-
Current year Payroll Deductions and Council Contributions	3,708,339.12	3,600,373.00
Amount Paid - current year	-4,244,727.97	-4,167,995.00
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-1,104,010.85	-567,622.00

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in the June 2014 payroll, as well as the municipality's contributions to these funds.

44.5 Councillor's arrear Consumer Accounts

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts. These amounts are deducted from their salary on a monthly basis.

44.6 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water Losses were as follows and are not recoverable:

Electricity:

		Lost Units	Tariff	Value
30 June 2014	Unaccounted Electricity Losses	4,808,672	0.65	3,109,768.18
30 June 2013	Unaccounted Electricity Losses	2,074,208	0.65	1,341,390.31

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical

	2014 R	2013 R
Volumes in kWh/year:		
System Input Volume	18,605,856.00	29,985,063.00
Billed Consumption	13,797,184.00	27,910,855.00
Distribution Loss	4,808,672.00	2,074,208.00
Percentage Distribution Loss	26%	7%

Water:

		Lost Units	Tariff	Value
30 June 2014	Unaccounted Water Losses	5,920,519	4.92	29,128,953.48
30 June 2013	Unaccounted Water Losses	10,473,401	4.53	47,444,506.53

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered

	2014 R	2013 R
Volumes in Kl/year:		
System Input Volume	10,180,613.81	15,334,251.00
Billed Consumption	6,996,200.00	4,860,850.00
Distribution Loss	3,184,413.81	10,473,401.00
Percentage Distribution Loss	31%	68%

45 COMMITMENTS FOR EXPENDITURE

45.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-	6,823,007.00	3,941,490.00
Infrastructure	6,823,007.00	3,941,490.00
- Approved but Not Yet Contracted for:-	15,868,175.00	65,921,163.00
Infrastructure	15,868,175.00	65,431,163.00
Community	-	490,000.00
Total Capital Commitments	22,691,182.00	69,862,653.00

This expenditure will be financed from:

Capital Replacement Reserve	-	2,506,000.00
Government Grants	22,691,182.00	67,356,653.00
	22,691,182.00	69,862,653.00

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
46 FINANCIAL INSTRUMENTS		
<i>46.1 Classification</i>		
FINANCIAL ASSETS:		
In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:		
<u>Financial Assets</u>	<u>Classification</u>	
Receivables from Exchange Transactions		
Electricity	Amortised cost 769,143.09	674,662.61
Refuse	Amortised cost 1,903,751.78	604,818.65
Sewerage	Amortised cost 1,970,267.41	634,470.03
Water	Amortised cost 2,500,323.73	670,207.32
Other Receivables	Amortised cost 280,569.04	1,460,678.00
Receivables from Non-exchange Transactions		
Assessment Rates Debtors	Amortised cost 3,209,782.21	358,965.95
Grants receivable	Amortised cost 12,608,493.00	12,608,493.00
Cash and Cash Equivalents		
Call Deposits	Amortised cost -	-
Notice Deposits	Amortised cost 18,302,063.63	1,851,400.57
Bank Balances	Amortised cost 14,991,182.66	17,626,782.03
Cash Floats and Advances	Fair value 809.96	689.96
Current Portion of Long-term Receivables		
 SUMMARY OF FINANCIAL ASSETS		
Financial Assets at Amortised Cost:		
Receivables from Exchange Transactions	Electricity 769,143.09	674,662.61
Receivables from Exchange Transactions	Refuse 1,903,751.78	604,818.65
Receivables from Exchange Transactions	Sewerage 1,970,267.41	634,470.03
Receivables from Exchange Transactions	Water 2,500,323.73	670,207.32
Receivables from Exchange Transactions	Other Debtors 280,569.04	1,460,678.00
Receivables from Non-exchange Transactions	Assessment Rates Debtors 3,209,782.21	358,965.95
Receivables from Non-exchange Transactions	Grants receivable 12,608,493.00	12,608,493.00
Cash and Cash Equivalents	Call Deposits -	-
Cash and Cash Equivalents	Notice Deposits 18,302,063.63	1,851,400.57
Cash and Cash Equivalents	Bank Balances 14,991,182.66	17,626,782.03
	56,535,576.55	36,490,478.16

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
Financial Assets at Fair Value:	809.96	689.96
Total Financial Assets	56,536,386.51	36,491,168.12
FINANCIAL LIABILITIES:		
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:		
<u>Financial Liabilities</u>	<u>Classification</u>	
Payables from Exchange Transactions		
Trade Creditors	Amortised cost	-
Retentions	Amortised cost	-
Other Creditors	Amortised cost	1,065,628.87
Payables from Non-exchange Transactions		
Staff Bonuses	Amortised cost	-
Staff Leave Accrued	Amortised cost	1,836,473.76
Sundry Deposits	Amortised cost	1,462.70
Annuity Loans	Amortised cost	-
Finance Lease Liabilities	Amortised cost	104,625.74
		43,394.74
SUMMARY OF FINANCIAL LIABILITIES		
Financial Liabilities at Amortised Cost:		
Payables from Exchange Transactions	Trade Creditors	-
Payables from Exchange Transactions	Retentions	-
Payables from Exchange Transactions	Other Creditors	1,065,628.87
Payables from Non-exchange Transactions	Staff Bonuses	-
Payables from Non-exchange Transactions	Staff Leave Accrued	1,836,473.76
Payables from Non-exchange Transactions	Sundry Deposits	1,462.70
		2,903,565.33
		4,421,158.67
Total Financial Liabilities	2,903,565.33	4,421,158.67

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

46.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

30 June 2014

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Cash and Cash Equivalents	-	810	-	809.96
Total Financial Assets	-	810	-	809.96
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Total Financial Liabilities	-	-	-	-
Total Financial Instruments	-	810	-	809.96

30 June 2013

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Cash and Cash Equivalents	-	690	-	689.96
Total Financial Assets	-	690	-	689.96
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Total Financial Liabilities	-	-	-	-
Total Financial Instruments	-	690	-	689.96

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014 **2013**
R **R**

46.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 18 and the Statement of Changes in Net Assets.

Gearing Ratio

	2014	2013
	R	R
The gearing ratio at the year-end was as follows:		
Debt	0.00	148,020.48
Cash and Cash Equivalents	-18,302,873.59	-1,852,090.53
Net Debt	-18,302,873.59	-1,704,070.05
Equity	642,653,570.24	632,215,757.06
Net debt to equity ratio	-3%	0%

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

46.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

46.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the Annual Financial Statements.

46.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rate. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

46.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

46.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

46.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	R	R
Receivables from Exchange Transactions		
Counterparties without external credit rating:-		
Group 1	1,038,358.64	1,721,449.00
Group 2	149,966.65	248,623.10
	<u>1,188,325.29</u>	<u>1,970,072.10</u>
Total Receivables from Exchange Transactions	<u>1,188,325.29</u>	<u>1,970,072.10</u>
Receivables from Non-exchange Transactions		
Group 1	13,028,637.60	247,637.00
Group 2	-	-
	<u>13,028,637.60</u>	<u>247,637.00</u>
Total Receivables from Non-exchange Transactions	<u>13,028,637.60</u>	<u>247,637.00</u>

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

46 FINANCIAL INSTRUMENTS (Continued)

46.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

46.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

LETSEMENG MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

47 RELATED PARTY TRANSACTIONS

During the year there were no related party transactions. The Municipality has various processes in place to identify and note any related party balances and transactions. These range from disclosure on the bid documents to maintenance of a conflict register for councillors and senior managers, this is kept in the office of the Municipal Manager.

48 CONTINGENT LIABILITIES

48.1 Court Proceedings:

(i) Termination of Contract:

The municipality is being sued by the plaintiff, Mr VM Morobane for unfair dismissal and/ or unfair labour practice. Mr VM Morobane resigned after he was allegedly treated unfair by Management. He resigned by letter on 11 February 2010. He was employed in terms of fixed term contract for five years as Corporate Service Manager on 6 September 2006. Mr VM Morobane's condition for resigning was that he should be paid the remainder of his contract of employment. Council conveyed a letter which stated that the resignation was accepted and he would not be paid for the remainder of his contract. Mr VM Morobane subsequently issued summons in the Free State High Court for payment of the unpaid salary amounting to R 737 558.36. The High Court dismissed the grounds of defence. Appeal against the High Court's judgement was made and the Supreme Court of Appeal. The appeal will be heard in High Court on 24-28 November 2014 and 1-5 December 2014.

842,558 842,558

737,558 737,558

(ii) Review application : J Mongola

The municipality is currently reviewing an award to pay R 105 000. The estimated litigation cost will be R 100 000.

105,000 105,000

49 CONTINGENT ASSETS

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

50 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

51 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2014.

52 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 40).

53 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

APPENDIX A
LETSEMENG MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014

THE MUNICIPALITY HAD NO EXTERNAL LOANS FOR THE TWO FINANCIAL YEARS

Details	Original Loan Amount	Interest Rate	Redeemable	Balance at 30 June 2013	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2014
	R			R	R	R	R
ANNUITY LOANS							
Multitech	-	9.00%	31/12/2013	104,626	-	104,626	-
Total Annuity Loans	-			104,626	-	104,626	-
CAPITAL LEASE LIABILITIES							
Multitech		9.00%	31/12/2013	4,070		4,070	-
Bytes	-	9.00%	30/04/2014	39,325	-	39,325	-
Total Capital Lease Liabilities	-			43,395	-	43,395	-