



**LETSEMENG LOCAL MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2010**

I am responsible for the preparation of these financial statements, which are set out on page 3 to 45, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

\_\_\_\_\_  
Municipal Manager  
I.E Poëe

\_\_\_\_\_  
Date

**LETSEMENG LOCAL MUNICIPALITY  
GENERAL INFORMATION  
FOR THE YEAR ENDED 30 JUNE 2010**

**MEMBERS OF COUNCIL**

Speaker and mayor : MA Mpatshela

Councilor	:	G.M Modise	:	Chairperson: Finance
Councilor	:	KW Nel	:	Finance
Councilor	:	M. Tsilloane	:	Chairperson: Human Resources and Transformation
Councilor	:	G.M Modise	:	Human resources and Transformation
Councilor	:	J Mohapi	:	Human resources and Transformation, Technical and Infrastructure
Councilor	:	V. Mona	:	Technical & Infrastructure
Councilor	:	J Molosi	:	Technical & Infrastructure
Councilor	:	S. Lefahle	:	Technical & Infrastructure
Councilor	:	J Molosi	:	Chairperson Social Development, Health, Sports & Safety
Councilor	:	S.Lefahle	:	Social Development, Health, Sports and Safety
Councilor	:	S. Cloete	:	Social Development, Health, Sports and Safety

**GENERAL INFORMATION**

Country of incorporation and domicile	South Africa
Nature of operations and principal activities	Providing municipal services and maintain the best interest of the local community in the Letsemeng area  The Letsemeng Local Municipality is a Grade Two Local Authority in terms of Government Notice R999 of 2 October 2001, published in terms of item IV of the Remuneration of Office Bearers Act, 1998
Grading of the municipality	
Registered address	Civic Centre 7 Groot Trek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Auditors	The Auditor - General: Free State
Bankers	First National Bank (Primary Bank Account) and Standard Bank
Attorneys	Bokwa Attorneys

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**LETSEMENG LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

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LETSEMENG LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2010

	Note	2010 R	2009 R
<b>ASSETS</b>			
<b>Current assets</b>		<b>18 895 401</b>	<b>5 087 121</b>
Consumer receivables	2	16 146 285	3 435 126
Other receivables	3	1 047 855	1 259 046
VAT Debtors	12	1 700 567	392 189
Cash and cash equivalents	35	694	760
<b>Non-current assets</b>		<b>146 777 933</b>	<b>135 041 611</b>
Property, plant and equipment	5	146 697 137	134 947 060
Intangible assets	6	8 187	32 749
Investments	7	72 609	61 803
<b>Total assets</b>		<b>165 673 334</b>	<b>140 128 732</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>27 387 387</b>	<b>39 711 278</b>
Consumer deposits	8	668 477	510 185
Payables	9	4 209 293	3 060 002
Accruals	10	893 995	1 158 979
Unspent conditional grants and receipts	11	16 903 977	5 791 977
Deferred grants	12	-	25 150 008
VAT	13	1 923 106	2 459 470
Current portion of long-term liabilities	14	-	2 224
Bank overdraft	35	2 788 539	1 578 434
<b>Non-current liabilities</b>			
Long - term liabilities	14	-	8 491
<b>Total liabilities</b>		<b>27 387 387</b>	<b>39 719 769</b>
<b>Net assets</b>		<b>138 285 947</b>	<b>100 408 962</b>
<b>NET ASSETS</b>			
Government grant reserve		-	62 744 179
Accumulated surplus/(deficit)		138 285 947	37 664 784
<b>Total net assets and liabilities</b>		<b>165 673 334</b>	<b>140 128 732</b>

**LETSEMENG LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

	<b>TOTAL</b>	<b>TOTAL</b>
<b>Balance at 30 June 2008</b>	<b>103 110 178</b>	<b>103 110 178</b>
Surplus/(deficit) for the year	(1 693 469)	(1 693 469)
Prior year error	(1 007 745)	(1 007 745)
Correction in shortage of the opening balance		-
<b>Balance at 30 June 2009</b>	<b>100 408 963</b>	<b>100 408 963</b>
		-
Surplus/(deficit) for the year	12 974 413	12 974 413
Prior year error	24 902 571	24 902 571
Correction in shortage of the opening balance		-
<b>Balance at 30 June 2010</b>	<b>138 285 947</b>	<b>138 285 947</b>

**LETSEMENG LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2010**

	Notes	Actual 2010 R	Actual 2009 R
<b>Revenue</b>			
Property rates	15	3 500 710	3 472 058
Services charges	16	28 463 496	23 806 059
Rental of building		339 256	369 563
Interest on debtors		1 681 755	1 196 085
Interest on Investment		339 427	301 143
Dividends received		19 092	13 350
Government grants and subsidies	17	34 675 982	27 267 808
Other income	18	512 400	535 590
Bad debts recovered		-	9 436
<b>Total Revenue</b>		<b>69 532 118</b>	<b>56 971 092</b>
<b>EXPENDITURE</b>			
Employee related costs	19	18 352 117	15 451 176
Remuneration of councillors	20	1 720 574	1 705 261
Bad debts	2	-	10 961 724
Depreciation	24	6 997 820	7 102 502
Repairs and maintenance		2 117 693	2 123 809
Interest paid	21	51 440	169 878
Bulk purchases	22	11 304 972	7 803 183
General expenses	30	16 013 088	13 347 029
<b>Total Expenditure</b>		<b>56 557 705</b>	<b>58 664 560</b>
<b>DEFICIT FOR THE YEAR</b>		<b>12 974 413</b>	<b>(1 693 469)</b>

Refer to Appendix E for the comparison with the approved budget.

**LETSEMENG LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2010**

	Notes	2010 R	2009 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and government	32	54 698 010	52 027 451
Cash paid to suppliers and employees	33	(36 891 108)	(27 494 423)
Cash generated by operations	34	17 806 902	17 768 250
Interest received		2 021 182	1 497 228
Interest paid		( 51 440)	( 169 878)
Dividends received		19 092	13 350
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>19 795 736</b>	<b>20 231 375</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(18 723 337)	(36 199 739)
Increase in investments		( 10 806)	-
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(18 734 143)</b>	<b>(36 199 739)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans repaid		( 10 714)	( 438 465)
Increase in consumer deposits		158 292	1 442
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>147 578</b>	<b>( 437 023)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		(1 577 674)	16 629 927
Cash and cash equivalents at the end of the year	35	(2 787 845)	( 224 492)



## OBJECTIVE

The objective of the annual financial statements is to be a source of information on the financial position, financial performance and changes in financial status of the Letsemeng Local Municipality and demonstrates accountability useful to a wide range of users in making economic or political decisions.

### 1. BASIS OF PREPARATION

These annual financial statements have been prepared on accrual basis on accounting in accordance with and the effective standards of Generally Recognised Accounting Practice (GRAP), including Directive 4 issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003). These accounting policies are consistent with those of the previous financial year.

The annual financial statements were authorized for issue by Finance Committee on the 31 August 2010.

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the Standards of International Public Sector Accounting Standards (IPSAS), the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP or GRAP. This will only be permitted where the municipality has a legal right to set off amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost.

### Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practices (GRAP). The standards are summarised as follows:

#### Standard of GRAP

GRAP 1	Presentation of financial statements
GRAP 2	Cash-Flow Statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GAMAP 9.29 - .35 & .39 - .54	Revenue from Non-Exchange Transactions
GRAP 9	Revenue from Exchange Transactions

**LETSEMENG LOCAL MUNICIPALITY  
ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2010**

GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, Contingent liabilities and Contingent assets
GRAP 100	Non-current Asset Held for Sale and Discontinued Operations.
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Non Cash-Generating Assets
IAS 39	Financial instruments: Recognition and measurement
SIC – 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IFRIC 4 (AC 437)	Determining whether an Arrangement contains a Lease
IFRIC 14 (AC 447) IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

**Standard, Amendments to Standards and Interpretation issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have been:

GRAP 8	Interest in Joint Ventures – issued August 2006
GRAP 18	Segment Reporting – issued March 2005
GRAP 21	Impairment of Non-cash generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers) – issued February 2008.
GRAP 24	Presentation of Budget Information in Financial Statements – issued November 2007.
GRAP 25	Employee Benefits
GRAP 26	Impairments of Cash Generating Assets – Issued March 2009
GRAP 103	Heritage Assets – Issued July 2008
GRAP 104	Financial Instruments

**LETSEMENG LOCAL MUNICIPALITY  
ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2010**

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The following standards, amendments to standards and interpretations been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits – effective 1 January 2009; and  
IFRIC 17 Distribution of non-cash assets to owners – effective 1 July 2009.

There were no impending changes in accounting policy at year end.

**Terminology differences**

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

The cash flow statement can only be prepared in accordance with the direct method.

Specific information has been presented separately on the Statement of Financial Position such as:

- (a) Receivables from non-exchange transactions, including taxes and transfers
- (b) Taxes and transfers payable
- (c) Trade and other payables from non-exchange transactions

**ROUNDING**

All amounts are rounded off to the nearest Rand.

**Functional and Presentation currency**

The annual financial statements are presented in South African Rand, which is the municipality's functional currency. All information presented is rounded to the nearest Rand.

**Use of significant judgments and estimation**

In preparing the annual financial statements, management is required to make estimates, judgments and assumptions that affect the amounts represented in the annual financial statements and related disclosures. The estimates and associated assumptions are based on historical experience; Actual results in the future could differ from these estimates. The estimates and

underlying assumptions are reviewed on an ongoing basis. Changes in estimates are accounted for prospectively.

Information about critical judgement in applying accounting policy choices which may be material effect on the annual financial statements as well as the estimation uncertainty is included herewith

### **Impairment testing**

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment (i.e. carrying amount is less than recoverable amount) may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values.

Letsemeng Local Municipality adopted the exemptions granted under Directive four, Transitional provisions for medium and low capacity municipalities issued by the Accounting Standards Board not to disclose as per policy below but to comply within the prescribed period as per Directive 4.

### **GOING CONCERN ASSUMPTION**

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

#### **1.1. PROPERTY, PLANT AND EQUIPMENT**

An item of property, plant and equipment which qualifies for recognition as an asset shall initially be measured at cost.

Property, plant and equipment are stated at historical cost, less accumulated depreciation. Such assets are financed either by external loans, capital replacement reserve, government grants and subsidies and donations.

Heritage assets which are of culturally significant resources are shown at cost and are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Directly attributable costs include the following:

- Cost of site preparation.
- Initial delivery and handling costs.
- Installation cost.
- Professional fees.
- Estimate cost of dismantling the asset and restoring the site to the extent that it is recognised as a provision.

**LETSEMENG LOCAL MUNICIPALITY  
ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2010**

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The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost is then measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Where an item of property, plant and equipment is acquired at no cost, it is initially recognised at its fair value as at the date of acquisition.

The useful life of an item of property plant and equipment is reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge from the current and future periods gets adjusted.

Where items of property, plant and equipment 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.

Depreciation is calculated at historical cost, using the straight-line method over the useful lives of the asset. Assets will be depreciated according to their annual depreciation rates based on the following estimated asset lives:

<b>Infrastructure Assets</b>	<b>Years</b>
Roads, pavements, bridges and storm water	10-30
Street names, signs and parking meters	5
Water reservoirs and reticulation	15-20
Water meters	7
Car parks, bus terminals and taxi ranks	20
Electricity reticulation	15-30
Electricity meters	10
Sewerage purification and reticulation	15-20
Housing	30
Street lighting	20-25
Refuse sites	30
<b>Community Assets</b>	<b>Years</b>
Parks and gardens	10-30
Sport fields	20-30
Community halls	30
Libraries	30
Recreation facilities	20-30
Clinics	30
Fire services	30
Cemeteries	30
<b>Other Assets</b>	<b>Years</b>
Motor vehicles	4-7
Plant and equipment	2-15
Security measures	3-10
Buildings	30

IT equipment	35
Office equipment	3-7
Specialised vehicles	15-20
Furniture and Fittings	7-10

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. Guidance on the disposal process is provided in the Asset Management policy.

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting on Provisions.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and impairment loss is charged to the Statement of Financial Performance.

## **1.2. LAND AND BUILDINGS**

Land is not depreciated except for landfill sites. Buildings are stated at cost less accumulated depreciation and impairment losses.

## **1.3. FINANCIAL INSTRUMENTS**

Financial instruments, which include fixed deposits and short-term deposits invested in registered commercial banks, are recognised at value that are reflected by the category of the instrument as per IAS 39.

There are four categories of financial instruments:

1. Fair value through profit or loss (which includes trading)
2. Loans and Receivables
3. Held to Maturity
4. Available for sale

All financial assets that are within the scope of IAS 39 are classified into one of the four categories.

Financial instruments include investments, trade receivables and borrowings. The municipality classifies its financial assets as loans and receivables.

### ***Initial recognition***

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities in excess of 12 months. These are classified as non-current assets. Loans and receivables are classified as “trade and other receivables” in the Statement of Financial Position. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost using the effective interest rate.

#### ***Accounts receivable***

Trade and other receivables are recognised initially at cost which represents fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment 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. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

#### ***Financial liabilities***

Financial liabilities are recognised initially at cost which represents fair value. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate.

#### ***Gains and losses***

Gains and losses arising from changes in financial assets or financial liabilities at amortised cost are recognised in profit and loss when the financial asset or liability is derecognized or impaired through the amortisation process.

#### ***Investments held-to-maturity***

Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost calculated using the effective interest method. Investments which include listed government bonds, unlisted municipal bonds, fixed deposits and short term deposits invested in registered banks are stated at cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss and this is recognised as an expense in the period that the impairment is identified. Surplus funds are invested in terms of Council’s Investment Policy. Investments are only made with financial institutions registered in terms of the Deposit Taking Institutions Act of 1990 with an A1 or similar rating institution for safe investment purposes. The investment period should be such that it will not be necessary to borrow funds against the investments at a penalty interest rate to meet commitments.

### **1.4. ACCOUNTS RECEIVABLES**

Trade and other receivables are recognised initially at cost which represents fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment 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. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is

the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar instruments.

#### **PROVISION FOR BAD DEBT (accounts receivable)**

An annual contribution is made towards a bad debt provision for non-recoverable rates and service fees as well as for sundry debtors. The balance of the provision of bad debt is reviewed at balance sheet date and adjusted to be equal to all debt outstanding for more than 120 days. When an under recovery occurs during the year an additional contribution is made from the accumulated surplus at year end. Bad debts are written off during the year in which they are identified.

#### **1.5. TRADE CREDITORS (Accounts Payables)**

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As the MFMA Chapter 8(65) (e) require that all money owing by the Municipality be paid within 30 days, the time value of money is not considered as material thus no discounting is performed to establish the present value of future payments.

#### **1.6. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term investments that are held with registered banking institutions with maturities of 32 days or daily calls.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

#### **1.7. INVESTMENT PROPERTY**

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the assets which is based on the write off period as prescribed in the assets management policy.

Investment properties that are owner-occupied are recognised as Property Plant and Equipment. Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

#### **1.8. NON-CURRENT ASSETS (DISPOSAL GROUPS) HELD FOR SALE**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.



Non-current assets (or disposal group) held for sales are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **1.9. INTANGIBLE ASSETS**

The Municipality classifies assets that are non-monetary without physical substance as intangible assets.

When software is not an integral part of the related hardware, computer software is treated as an intangible asset.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets with a finite useful life on a straight line basis over its useful life to nil unless:

- there is commitment by third party to purchase the asset at the end of its useful life
- there is an active market for the asset

An impairment test is performed for assets with an indefinite useful life in accordance with the policy on impairment of assets.

### **1.10. LEASES**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The following situations would normally individually or in combination lead to a lease being classified as finance lease and have been considered by the Municipality:

- lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset;
- the leased asset are of such a specialised nature that only the lessee can use them without major modifications;
- if the lessee can cancel the lease, the lessor's deficits associated with the cancellation are born by the lessee;
- gains or deficits from the fluctuation in the fair value of the residual accrue to the lessee and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

#### ***Finance leases - lessor***

The entity recognises finance lease receivables at the net investment in the lease in the Statement of Financial Position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the entity's net investment in the finance lease.

#### ***Finance leases - lessee***

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at

amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

### ***Operating leases - lessor***

Operating lease income is recognised as income on a straight-line basis over the lease term.

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

Income for leases is disclosed under revenue in the Statement of Financial Performance.

### ***Operating leases - lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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.

Payments for leases are disclosed under expenses in the Statement of Financial Performance.

## **1.11. EMPLOYEE BENEFITS**

### **SHORT-TERM EMPLOYEE BENEFITS**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted where the effect of discounting is immaterial.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when

the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### **RETIREMENT BENEFITS**

The municipality contributes towards retirement benefits of its employees and councillors to the under mentioned pension funds:

- SAMWU Provident fund
- Unity insurance
- Free State Municipal Pension Fund
- SALA Pension Fund
- Metropolitan Pension Fund
- Free State Municipal Provident Fund

Councillors are members of the Municipal Councillor's Pension Fund that was established in terms of the Remuneration of Public Office Bearers Act 1998 (Act 20 of 1998.)

### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### **Defined benefit plans**

For defined benefit plans the cost of providing the benefits is determined using the projected credit unit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to Statement of Financial Position date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or deficit exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the Statement of Financial Performance over the expected average remaining service lives of participating employees. Actuarial gains or deficits within the corridor are not recognised.

Gains or deficits on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset.

The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the Statement of Financial Performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and deficits and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial deficits, plus the present value of available refunds and reduction in future contributions to the plan.

### **Post employment medical care benefits**

The municipality provides post employment medical care benefits to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment.

## **1.12. CONSUMER DEPOSITS**

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

## **1.13. BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss.

To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **1.14. REVENUE RECOGNITION**

### **1.14.1 Revenue from Exchange Transactions**

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when 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. Revenue from the sale of electricity prepaid meter cards are recognised when the prepaid equivalent of the electricity is consumed.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognised on a time proportion basis. Interest on outstanding debtors is recognised on a time proportion basis once debtors' accounts are overdue.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

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

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Revenue from the sale of housing is recognised when the risk is passed to the consumer. 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 is brought into use.

Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

#### **1.14.2 Revenue from non-exchange transactions**

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 proportion basis. Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when the municipality assumes control over such items of property, plant and equipment.

Government grants and subsidies are recognised in accordance with legislation or where there has been compliance with the conditions of the grant and subsidy. Also see note on conditional grants and receipts below.

Contributed property, plant and equipment is recognised when the municipality assumes control over such items of property, plant and equipment. Also see note on conditional grants and receipts below.

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.

#### **1.14.3 CONDITIONAL GRANTS AND RECEIPTS**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Group has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations.

#### **1.15. GOVERNMENT GRANTS**

Government grants are recognised when there is reasonable assurance that:

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

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate. A government grant that becomes receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income in the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial Position by setting up the grant as deferred income which is released to the Statement of Financial Performance as the assets are depreciated i.e. as the cost are incurred which the grant is intended to compensate.

Grants related to income are presented as a credit in the Statement of Financial Performance (separately). Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense. Repayment of a grant related to an asset is recorded by reducing the deferred income balance by the amount repayable.

#### **1.16. PROVISIONS, CONTINGENT ASSET AND CONTINGENT LIABILITIES**

##### ***Provisions***

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the entity has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### ***Contingent asset***

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are accounted for in the notes to financial statements as a disclosure note.

### ***Contingent liability***

A contingent liability is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are accounted for in the notes to financial statements as a disclosure note.

## **1.17. VALUE ADDED TAX**

The Council accounts for Value Added Tax on the cash basis.

## **1.18. UNAUTHORISED EXPENDITURE**

Unauthorized expenditure is expenditure that has not been budgeted, 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 56 of 2003). Unauthorized expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **1.19. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorized expenditure. Irregular expenditure is accounted for as expenditure in the



Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.20. 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. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.21. EVENTS AFTER BALANCE SHEET DATE**

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Statement of Financial position date. Events after the Statement of Financial position date that are indicative of conditions that arose after the Statement of Financial position date are dealt with by way of a note to the financial statements

#### **1.22. CONSTRUCTION CONTRACTS**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the Statement of Financial position date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### **COMPARATIVE FIGURES**

Budgeted amounts have been included in the annual financial statements for the current financial year only. When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified as per note 25. The nature and reason for the reclassification is disclosed.

LETSEMENG LOCAL MUNICIPALITY  
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2 CONSUMER RECEIVABLES

	Gross balance	Provision for bad debts	Net Balance
<b>As at 30 June 2009</b>			
Service receivables	13 872 523	10 523 370	3 349 153
Rates from non exchange transactions	1 997 875	1 556 953	440 922
Electricity	1 142 025	632 623	509 402
Water	4 655 471	3 603 532	1 051 939
Sewerage	3 197 693	2 508 341	689 352
Refuse	2 879 459	2 221 921	657 538
Rentals	456 359	389 282	67 076
Sundries	112 431	93 535	18 896
<b>Total</b>	<b>14 441 312</b>	<b>11 006 187</b>	<b>3 435 125</b>
<b>As at 30 June 2010</b>			
Service receivables	13 786 488	-	13 786 488
Rates	2 200 347	-	2 200 347
Electricity	1 125 547	-	1 125 547
Water	3 695 140	-	3 695 140
Sewerage	3 528 981	-	3 528 981
Refuse	3 236 473	-	3 236 473
Rentals	318 846	-	318 846
Sundries	2 040 951	-	2 040 951
<b>Total</b>	<b>16 146 285</b>	<b>-</b>	<b>16 146 285</b>

The provision for bad debts could not be completed due to the fact that sufficient supporting documentation was not available.

	2010 R	2009 R
<b>Receivables Age Analysis</b>		
<b>Property Rates</b>		
Current (0 – 30 days)	476 418	246 880
31 - 60 Days	243 624	87 736
61 - 90 Days	207 020	106 306
120 - 150 Days	1 273 284	1 556 953
<b>Total</b>	<b>2 200 347</b>	<b>1 997 875</b>
<b>Electricity</b>		
Current (0 – 30 days)	482 141	386 962
31 - 60 Days	118 202	81 621
61 - 90 Days	80 737	40 820
120 - 150 Days	444 467	632 623
<b>Total</b>	<b>1 125 546</b>	<b>1 142 025</b>
<b>Water</b>		
Current (0 – 30 days)	683 836	528 703
31 - 60 Days	856 267	275 574
61 - 90 Days	244 028	247 662
120 - 150 Days	1 911 008	3 603 532
<b>Total</b>	<b>3 695 140</b>	<b>4 655 471</b>
<b>Sewerage</b>		
Current (0 – 30 days)	523 451	465 854
31 - 60 Days	888 189	119 568
61 - 90 Days	185 908	103 929
120 - 150 Days	1 931 433	2 508 341
<b>Total</b>	<b>3 528 981</b>	<b>3 197 692</b>
<b>Refuse</b>		
Current (0 – 30 days)	504 582	447 274
31 - 60 Days	713 843	111 439
61 - 90 Days	189 728	98 826
120 - 150 Days	1 828 320	2 221 921
<b>Total</b>	<b>3 236 473</b>	<b>2 879 460</b>
<b>Rentals</b>		
Current (0 – 30 days)	28 003	16 671
31 - 60 Days	22 034	15 415
61 - 90 Days	13 435	13 462
120 - 150 Days	255 374	243 097
<b>Total</b>	<b>318 845</b>	<b>288 645</b>
<b>Reconciliation of the bad debt provision</b>		
Balance at beginning of the year	11 006 187	7 696 788
Contributions to provision		10 961 724
Bad debts written off against provision	(12 944 914)	(7 652 324)
Balance at end of year	<b>(1 938 727)</b>	<b>11 006 187</b>



LETSEMENG LOCAL MUNICIPALITY  
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	2010 R	2009 R
<b>3 OTHER RECEIVABLES</b>		
Pre-paid deposit: De Beers	713	713
Deposit electric pump	50 000	50 000
Deposits: Telephone	25 000	25 000
Debtors-Health Claims	972 143	325 049
Recoverable costs on learnership	-	36 004
Creditors with Debit Balance	-	822 280
<b>Total Other Receivables</b>	<b>1 047 856</b>	<b>1 259 046</b>
<b>4 CURRENT ACCOUNT</b>		
<b>FNB (Primary bank account)</b>		
Account Number - 52711568918		
Cash book balance at beginning of year - (credit)	(1 578 434)	(194 237)
Cash book balance at end of year - (credit)	<b>(2 788 539)</b>	<b>(1 578 434)</b>
Bank statement balance at beginning of year - (overdrawn)	( 245 177)	(303 466)
Bank statement balance at end of year - (overdrawn)	<b>(154 989)</b>	<b>(245 177)</b>
<b>STANDARD BANK</b>		
Account Number - 551151119		
Cash book balance at beginning of year - (credit)	20 685	802 348
Cash book balance at end of year - (credit)	<b>22 254</b>	<b>20 685</b>
Bank statement balance at beginning of year - (overdrawn)	20 685	802 348
Bank statement balance at end of year - (overdrawn)	<b>22 254</b>	<b>20 685</b>
Petty cash	694	809
Outstanding Items	-	(49)
<b>Total Cash and Cash Equivalents</b>	<b>(2 765 591)</b>	<b>(1 556 989)</b>
<b>Bank Statement Balance</b>	<b>(132 736)</b>	<b>(224 492)</b>

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5 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of Carrying Value

30 June 2010	Buildings	Infra-structure	Community	Other Assets	Total
Carrying values at 30 June 2009	<b>9 036 941</b>	<b>110 119 805</b>	<b>11 321 818</b>	<b>4 468 494</b>	<b>134 947 060</b>
Cost	12 105 646	144 775 127	13 266 070	8 895 560	179 042 404
Accumulated depreciation	(3 068 705)	(34 655 322)	(1 944 252)	(4 427 066)	(44 095 345)
Additions	-	9 735 516	-	-	9 735 516
Under construction 2010	-	8 355 300	632 520	-	8 987 820
Depreciation	(680 201)	(5 085 729)	(451 126)	(756 204)	(6 973 259)
Carrying values at 30 June 2010	<b>8 356 740</b>	<b>123 124 892</b>	<b>11 503 213</b>	<b>3 712 290</b>	<b>146 697 136</b>
Cost	12 105 646	162 865 943	13 898 590	8 895 560	197 765 740
Accumulated depreciation	(3 748 906)	(39 741 051)	(2 395 377)	(5 183 270)	(51 068 604)
30 June 2009	Buildings	Infra-structure	Community	Other Assets	Total
Carrying values at 30 June 2008	<b>9 739 222</b>	<b>95 185 220</b>	<b>13 623 512</b>	<b>5 160 010</b>	<b>123 707 966</b>
Cost	11 998 706	124 024 989	12 409 781	8 191 972	156 625 448
Accumulated depreciation	(2 365 584)	(29 570 857)	(1 516 226)	(3 581 291)	(37 033 958)
Correction of opening balance	106 100	731 088	2 729 958	549 329	4 116 475
Additions	1 601 161	23 594 231	1 331 428	294 797	26 821 617
Under construction 2009	863 248	22 895 892	-	-	23 759 140
Depreciation	(703 121)	(5 084 465)	(428 026)	(845 775)	(7 061 387)
Intangible Assets included in total for 2008	-	-	-	(73 429)	(73 429)
Under construction 2008 balance already included in 2009	(2 463 569)	(26 471 073)	(3 205 096)	(67 109)	(32 206 847)
Carrying values at 30 June 2009	<b>9 036 941</b>	<b>110 119 805</b>	<b>11 321 818</b>	<b>4 468 494</b>	<b>134 947 060</b>
Cost	12 105 646	144 775 127	13 266 070	8 895 560	179 042 404
Accumulated depreciation	(3 068 705)	(34 655 322)	(1 944 252)	(4 427 066)	(44 095 345)

The opening balance and additions as per appendix B and the note will differ due to the fact that balances for assets under construction were included in the opening balance total in the note and shown on Appendix B separately. The Municipality has applied the measurement transitional provisions for Property, Plant and Equipment in Directive 4 of the Accounting Standards Board. As a result no impairment losses (including accumulated impairments) were recognised on the financial statements. The municipality has adopted processes and procedures which will assist the municipality in the measurement of these amounts. Refer to Appendix B and C for detailed information on Property, Plant and Equipment.

6 Intangible assets

Reconciliation of Carrying Value

30 June 2010	Software (Website Design)	Total
Carrying values at 01 July 2009	<b>32 749</b>	<b>32 749</b>
Cost	73 684	73 684
Accumulated Amortisation	40 936	40 936
Additions	-	-
Amortisation	24 561	24 561
Carrying values at 30 June 2010	<b>8 187</b>	<b>8 187</b>
Cost	73 684	73 684
Accumulated Amortisation	65 497	65 497
30 June 2009	R	R
Carrying values at 01 July 2008	<b>57 310</b>	<b>57 310</b>
Cost	73 684	73 684
Accumulated Amortisation	16 374	16 374
Additions	-	-
Amortisation	24 561	24 561
Carrying values at 30 June 2009	<b>32 749</b>	<b>32 749</b>
Cost	73 684	73 684
Accumulated depreciation	40 936	40 936

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	2010 R	2009 R
<b>7 INVESTMENTS</b>		
<b>Unlisted</b>	50 355	41 118
Senwes - Cost	22 254	20 685
Standard Bank		
<b>Total Unlisted</b>	<b>72 609</b>	<b>61 803</b>
<p>This comprises of a non-controlling interest of 3,600 Senwes Limited and 4,999 Senwes Beleggings Limited shares. The shares are valued as per valuation obtained from the Investee as at 30 June 2010 of R 5.60 and R4.20 respectively. The investments are accounted for as financial assets at fair value through profit and loss as provided for in IAS39 -9b(l).</p>		
<b>8 CONSUMER DEPOSITS</b>		
Electricity and water	<b>668 477</b>	<b>510 185</b>
<b>9 PAYABLES</b>		
CSIR-Essential Oils;	-	10 000
Sundry creditors;	4 017 635	3 045 315
Stale Cheques;	186 289	-
Hall deposits;	3 328	2 645
Sundry creditors;	2 042	2 042
<b>Total Payables</b>	<b>4 209 293</b>	<b>3 060 002</b>
<b>10 ACCRUALS</b>		
Debtors : Interest Services;	1 072	1 072
Debtors : Ambulance;	-184 699	21 731
Accumulate Leave;	1 072 052	1 130 606
De Beers Pre-Paid Deposito;	5 570	5 570
<b>Total Accruals</b>	<b>893 995</b>	<b>1 158 979</b>
<b>11 UNSPENT CONDITIONAL GRANTS AND SUBSIDIES</b>		
<b>Conditional grants from other spheres of Government</b>		
<b>Opening Balance not yet cleared on the system</b>	5 791 977	-
Blue Diamond	61 000	110 000
#Municipality Infrastructure Grant not yet cleared on the system	11 051 000	2 418 497
Department of Mineral & Energy Affairs Grant - Electrification of Stands	-	533 007
Department of Local Government and Housing - Bucket Eradication	-	2 730 473
<b>Total Unspent Conditional Grants and Subsidies not yet cleared(TB)</b>	<b>16 903 977</b>	<b>5 791 977</b>
<b>#Opening Balance to be cleared on the system</b>	(5 791 977)	-
#Municipality Infrastructure Grant to be cleared on the system	(11 051 000)	-
Customer Care	61 000	-
Department of Local Government and Housing - Bucket Eradication	854 617	-
<b>Total Unspent Conditional Grants and Subsidies</b>	<b>976 617</b>	<b>5 791 977</b>
<p># Municipality is in the process to clear the capital projects, therefore the unspent conditional grants will be cleared as soon as the project are finished.</p>		
<b>12 DEFERRED GRANTS</b>		
Opening Balance	25 150 018	13 014 063
Municipality Infrastructure Grant	(23 118 556)	10 104 503
Website - Free State Provincial Treasury	-	-
Department of Local Government and Housing - Bucket Eradication	(1 364 459)	1 364 459
Department of Mineral & Energy Affairs Grant - Electrification of Stands	(666 993)	666 993
	-	<b>25 150 018</b>

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	2010 R	2009 R
<b>13 VAT Debtors</b>		
VAT Debtors	1 700 567	392 189
<b>VAT Payables</b>	1 923 106	2 459 470

VAT is payable on the cash basis. Only when payment is received from receivables is VAT paid over to SARS. The balance accumulated on the VAT output as customers are invoiced is netted off against the VAT input. This will be reduced in the subsequent year as payment/receipts are made for VAT

**14 LONG TERM LIABILITIES**

External loans	-	10 714
Less: Current portion transferred to current liabilities	-	(2 224)
<b>Long Term Liability</b>	-	8 491

Refer to Appendix A for more details on long-term liabilities.

**15 PROPERTY RATES**

Actual

Residential	1 808 530	2 295 066
Commercial	1 672 752	662 290
State	19 428	514 702
<b>Total Assessment Rates</b>	<b>3 500 710</b>	<b>3 472 058</b>

Property Valuations

Residential	196 327 025	108 150 710
Commercial	181 587 550	30 050 160
State	2 109 000	33 593 720
Municipal	36 147 000	63 647 085
<b>Total Property Valuations</b>	<b>416 170 575</b>	<b>235 441 675</b>

Valuation on land and buildings is performed every five years. The last valuation came into effect on 1 July 2009. Property valuations were done during the 2008/2009 financial year. Various rates are applied to property valuations to determine assessment rates. Rebate of 2% is applied to residential, 30% is applied to state property owners, 0% on commercial property and 100% on municipal property. Rates are levied on a monthly basis on property owners.

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	2010 R	2009 R
<b>16 SERVICE CHARGES</b>		
Sale of electricity	11 287 970	8 662 481
Sale of water	6 636 457	5 916 919
Refuse removal	5 182 672	4 532 898
Sewerage and sanitation charges	5 356 397	4 693 761
<b>Total Service Charges</b>	<b>28 463 496</b>	<b>23 806 059</b>

<b>17 GOVERNMENT GRANTS AND SUBSIDIES</b>		
Equitable Share	32 575 982	24 626 283
Municipal Systems Improvement Grant	400 000	430 000
Financial Management Grant	1 000 000	500 000
Municipality Infrastructure Grant	-	-
Department of Local Government and Housing - Urban Planning	132 000	97 000
Website - Free State Provincial Treasury	-	-
Department of Mineral & Energy Affairs Grant - Customer Care	-	107 267
Department of Water Affairs and Forestry -Customer Care-Learnership	-	155 665
Department of Water Affairs and Forestry - Feasibility Study	-	-
LG SETA-Learnership	-	55 494
Department of Local Government and Housing	568 000	-
Audit cost-Payments by Provincial Government	-	1 348 899
Blue Diamond	-	44 200
<b>Total Government Grant and Subsidies</b>	<b>34 675 982</b>	<b>27 364 808</b>

As result of compliance with GAMAP 29-35;39-54;61(b)(iii),(vi),(viii),(ix) and 62(a) and (b) Government Grants, the amount of the grants recognised in the Income Statement is only those related to operating expenditure recognised as income.  
 The balances disclosed on the note are the amount per Division of Revenue Act.

<b>34 675 982</b>	<b>21 490 122</b>
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**17.1 Equitable Share**

Balance unspent at beginning of year	-	-
Current year receipts	32 575 982	24 626 282
Conditions met - transferred to revenue	(32 575 982)	-24 626 282
	<b>-</b>	<b>-</b>

In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidize the provision of basic and administrative services to indigent community members and to subsidize income. No significant decrease is expected in the level of this grant.

**17.2 Municipal Infrastructure Grant**

Balance unspent at beginning of year	2 418 497	-
Current year receipts	13 102 337	12 523 000
Conditions met - transferred to revenue	(15 520 834)	-
Expenses incurred but assets not yet ready for use - transferred to unspent grants (note 11)	-	(10 104 503)
Conditions still to be met - transferred to current liabilities	-	<b>2 418 497</b>

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

**17.3 Financial Management Grant**

Balance unspent at beginning of year	-	-
Current year receipts	1 000 000	500 000
Conditions met - transferred to revenue	(1 000 000)	(500 000)
Conditions still to be met - transferred to unspent grants	-	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act.



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	2010 R	2009 R
<b>17 GOVERNMENT GRANTS AND SUBSIDIES (continue)</b>		
<b>17.4 Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	30 000
Current year receipts	400 000	400 000
Conditions met - transferred to revenue	( 400 000)	(430 000)
Conditions still to be met - transferred to unspent grants	-	-
	<u>-</u>	<u>-</u>
The fund is used to assist the local municipalities to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act of 2000.		
<b>17.5 Department of Local Government and Housing - Urban Planning</b>		
Balance unspent at beginning of year	-	-
Current year receipts	132 500	97 000
Conditions met - transferred to revenue	( 71 500)	(97 000)
Conditions still to be met - transferred to unspent grants (note 11)	<b>61 000</b>	-
	<u>61 000</u>	<u>-</u>
The grant was received for the establishment of a township. The relevant conditions of the grant were met.		
<b>17.6 Department of Mineral &amp; Energy Affairs Grant - Customer Care</b>		
Balance unspent at beginning of year	107 267	-
Current year receipts	-	300 000
Conditions met - transferred to revenue	( 107 267)	(192 733)
Conditions still to be met - transferred to unspent grants (note 11)	-	<b>107 267</b>
	<u>-</u>	<u>107 267</u>
The grant was for the appointment of service providers for the development of the Integrated Development Plan. The conditions of the grant were met.		
<b>17.7 Department: Mineral &amp; Energy Affairs: Electrification of Stands</b>		
Balance unspent at beginning of year	533 007	-
Current year receipts	-	<b>1 200 000</b>
Conditions met - transferred to revenue	-	-
Expenses incurred but assets not yet ready for use	(533 007)	(666 993)
Conditions still to be met - transferred to unspent grants (note 11)	-	<b>533 007</b>
	<u>-</u>	<u>533 007</u>

LETSEMENG LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS  
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	2010 R	2009 R
<b>17 GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>17.8 Department of Local Government and Housing - Bucket Eradication</b>		
Balance unspent at beginning of year	2 730 473	4 094 932
Current year receipts	-	-
Conditions met - transferred to revenue	(1 875 856)	(1 364 459)
Conditions still to be met - transferred to unspent grants (note 11)	<u>854 617</u>	<u>2 730 473</u>
Provincial Grant for infrastructural improvements. To be used only after the Municipality Infrastructure Grant has been depleted, but before March 2008.		
<b>17.9 Department of Local Government and Housing</b>		
Balance unspent at beginning of year	-	-
Current year receipts	-	426 800
Conditions met - transferred to revenue	-	(426 800)
Conditions still to be met - transferred to unspent grants	<u>-</u>	<u>-</u>
Provincial grant for site establishment.		
<b>17.10 Blue Diamond</b>		
Balance unspent at beginning of year	195 800	195 800
Current year receipts	-	-
Conditions met - transferred to revenue	(195 800)	-
Conditions still to be met - transferred to unspent grants (note 11)	<u>-</u>	<u>195 800</u>
Grant received for the feasibility study for the wine and diamond routes and bottling plant in Jacobsdal.		
<b>17.11 Department of Water Affairs and Forestry -Customer Care-Learnership</b>		
Balance unspent at beginning of year	122 270.00	-
Current year receipts	-	122 270
Conditions met - transferred to revenue	(122 270)	-
Receivables due from Dwarf. Refer to note 3.	<u>-</u>	<u>122 270</u>

**17.13 Changes in levels of government grants**

Based on the allocations set out in the Division of Revenue Act, (2006), no significant changes in the level of government grant funding are expected over the forthcoming two financial years.

LETSEMENG LOCAL MUNICIPALITY  
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	2010 R	2009 R
<b>18 OTHER INCOME</b>		
Agreements	26 942	17 482
Building plan fee	3 870	3 621
Call out fees	124	982
Counter surplus	-	275
Court fines	123 155	122 960
Grave plots	25 747	25 352
Inter-departmental charges	6 682	-
Library penalty	-	220
Photostats	3 215	3 166
Poundfee	659	1 949
Pre-paid card	3 457	-
Reconnection fees	91 486	87 627
Refuse bags	3 037	1 725
Selling installments	-	1 675
Sundry Services	13 982	-
Tax certificate	15 124	16 045
Test meter	238	219
Trading licenses	6 828	1 498
Fair value adjustment	-	25 199
Other	187 854	225 595
<b>Total Other Income</b>	<b>512 400</b>	<b>535 590</b>

**19 EMPLOYEE RELATED COSTS**

Employee related costs - Salaries and Wages	13 168 179	10 305 343
Employee related costs - Contributions to UIF, pensions , medical aids and Industrial council	2 182 320	1 909 240
Travel, motor car and other allowances	1 169 886	1 019 042
Housing benefits and allowances	58 773	83 602
Overtime payments	942 256	780 992
Annual bonus	559 162	637 701
Redemption of leave	135 390	715 255
Performance Bonus & Special Bonus	136 150	-
<b>Total Employee Related Costs</b>	<b>18 352 117</b>	<b>15 451 176</b>

There were no advances to employees.

**Remuneration of the Municipal Manager**

Annual Remuneration	699 832	463 212
Back pay	95 295	-
Car Allowance	136 897	152 080
Telephone	8 250	9 165
Annuity Insurance & Leave Payments	215 818	2 995
<b>Total</b>	<b>1 156 092</b>	<b>627 452</b>

The Municipal Manager was appointed in February 2002.

LETSEMENG LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS  
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	2010 R	2009 R
<b>19 EMPLOYEE RELATED COSTS (continued)</b>		
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	151 193	119 986
Back pay	334 824	-
Car Allowance	47 072	27 000
House Allowance	41 251	9 000
Leave Payment	18 939	13 987
Contributions to UIF, Medical and Provident Funds, non Pensionable allowance	3 439	6 148
<b>Total</b>	<b>596 718</b>	<b>176 121</b>

The current Acting Chief Financial Office was appointed on the 15 May 2009 to act in position to date.

**Remuneration of the individual Executive Directors:**

**Remuneration of the Head: Technical Services and Acting Municipal Manager**

Annual Remuneration	425 911	405 842
Back pay	64 314	21 000
Car Allowance	102 987	87 850
Telephone	-	-
Contributions to UIF, Medical and Provident Funds	178 554	2 995
Redemption of leave	-	-
<b>Total</b>	<b>771 765</b>	<b>517 686</b>

The current Technical services manager was appointed on the 15 May 2009 to act in position of the Municipal Manager for the period of six months.

**Remuneration of the Head: Corporate Services**

Annual Remuneration	304 082	333 262
Back pay	48 582	-
Car Allowance	80 000	40 000
Housing Allowance	30 000	15 000
Telephone	5 000	2 500
Leave Pay	52 235	-
Contributions to UIF, Medical and Provident Funds	22 570	12 533
<b>Total</b>	<b>542 469</b>	<b>403 295</b>

The current Corporate Manager was appointed on 1 September 2006.

No performance bonuses were paid or provided for, for the current and comparative year.

**20 REMUNERATION OF COUNCILLORS**

Mayor / Speaker	420 457	310 545
Councillors allowances	1 300 117	1 394 715
<b>Total Councillors' Remuneration</b>	<b>1 720 574</b>	<b>1 705 261</b>

**In kind benefits**

The Speaker is a full-time employee of the entity. The Speaker is provided with an office and admin support at the cost of the Council.

**21 INTEREST PAID**

Long term liabilities	3 769	14 695
Bank overdraft	47 671	155 182
<b>Total Interest on External Borrowings</b>	<b>51 440</b>	<b>169 877</b>

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	2010 R	2009 R
<b>22 BULK PURCHASES</b>		
Electricity	9 768 950	6 604 930
Water	1 536 022	1 198 254
<b>Total bulk purchases</b>	<b>11 304 972</b>	<b>7 803 184</b>
<b>23 CAPITAL COMMITMENTS</b>		
Commitments in respect of capital expenditure Approved and contracted for:		
Infrastructure	6 847 000	-
Community	-	-
Approved but not yet contracted for:		
Infrastructure	-	-
Community	-	-
<b>Total</b>	<b>6 847 000</b>	<b>-</b>
<b>24 DEPRECIATION</b>		
Buildings	680 201	680 201
Intangible asset	24 561	-
Infrastructure	5 085 729	5 084 465
Community assets	451 126	428 026
Other assets	756 204	909 810
	<b>6 997 821</b>	<b>7 102 501</b>

**25 PRIOR PERIOD ERROR**

In the prior year the municipality created the Government Grant reserve and this can be ring fence through the accumulated surplus. The government 25.1 grant reserve has therefore written back to accumulated surplus.

Statement of Financial Position

Decrease in Government grant reserve	-	64 744 179
Increase in Accumulated surplus	-	(64 744 179)

25.2 In the prior years the municipality created the deferred grant account according to IAS20 guidelines. However, GAMAP 9 does not allow the creation of the deferred grant. The deferred grants was corrected to be in line with GAMAP 9.

Statement of Financial Position

Decrease in Deferred Grants	-	25 150 008
Increase in Accumulated surplus	-	(25 150 008)

25.3 The following adjustments were made to accumulated surplus as a result of correcting prior year errors:

Statement of changes in net assets

Overall Increase in Accumulated Surplus	(24 962 692)	
Decrease in Deferred Grants	(25 150 008)	
Correction of Customer care and CSIR grants	36 004	
FSPG Government Garage	151 311	

**26 RETIREMENT BENEFIT INFORMATION**

Letsemeng Local Municipality and its employees contribute to the SALA Pension Fund and other employees of Letsemeng Local Municipality contribute to the SAMWU, Free State Provident Funds, which provides retirement benefits to such employees. The retirement benefit plan is subject to the Pension Funds Act of 1956, with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income. No actuarial information was available for the SALA Pension Fund when the financial statements were prepared.

**27 CONTINGENT LIABILITY**

No contingent liabilities exist at the reporting date. - -

LETSEMENG LOCAL MUNICIPALITY  
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	2010 R	2009 R
<b>28 CONTINGENT ASSET</b>		
No contingent assets are expected.	-	-
<b>29 IN - KIND DONATION AND ASSISTANCE</b>		
No in-kind donations and assistance were received by the municipality during the year.	-	-
<b>30 GENERAL EXPENSES</b>		
General expenses include the following significant items:		
Advertisement	172 102	141 679
Audit costs	4 135 355	2 813 297
Bank charges	141 826	123 556
Chemicals	1 106 665	989 332
Consultants	-	888 932
Delegations	646 968	280 294
Education	59 934	8 808
Electricity charge	-	816 350
Entertainment general	23 458	76 698
Entertainment manager	140 771	-
Fuel	692 487	786 880
Funeral costs	23 037	20 626
Insurance short term	242 019	559 557
Legal expenses	1 669 910	338 599
Licenses	287 158	7 344
Members subscriptions	112 592	67 448
Postage and private bag	43 481	74 028
Printing and stationery	298 933	257 869
Rent equipment - note 35	53 187	74 928
S.M.M.E. Projects	2 460 697	1 456 596
Special Events	71 118	167 750
Sundries	2 680	190 831
Sundries Services	-	45 921
Telephone	1 056 513	940 530
Training	-	11 500
Uniforms	105 632	56 502
Valuations	1 340 756	1 936 812
Water research	23 045	-
Website design	-	10 000
Youth desk programs	445 525	-
Other	656 146	204 365
	<b>16 013 087</b>	<b>13 347 029</b>
<b>31 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT:</b>		
<u>Contributions to South African Local Government Organisation and other affiliations</u>		
Opening balance	-	-
Current year's contribution	135 277	153 055
Amount paid - current year	( 135 277)	(153 055)
Amount paid - previous year	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

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	2010 R	2009 R
<b>ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT: (continued)</b>		
<b>Audit fees</b>		
Opening balance	( 822 280)	
Current year's contribution	(2 660 358)	2 600 838
Amount paid - current year	3 482 637	(3 423 118)
<b>Balance unpaid (included in Receivables)</b>	<b>-</b>	<b>( 822 280)</b>
<b>VAT</b>		
VAT payable	1 923 106	2 459 470
	<b>1 923 106</b>	<b>2 459 470</b>
<b>UIF</b>		
Opening balance	-	-
Current year payroll deductions	210 321	194 365
Amount paid - current year	( 210 321)	( 194 365)
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>
<b>PAYE</b>		
Opening balance	-	-
Current year payroll deductions	1 861 640	1 182 876
Amount paid - current year	(1 861 640)	(1 182 876)
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>
<b>Pension Fund Deductions</b>		
Opening balance	-	-
Current year payroll deductions and council contributions	1 405 543	1 276 227
Amount paid - current year	(1 405 543)	(1 276 227)
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>
<b>Medical Aid Deductions</b>		
Opening balance	-	-
Current year payroll deductions and council contributions	666 005	538 593
Amount paid - current year	( 666 005)	( 538 593)
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

**Councilor's arrear consumer accounts**

No Councilors have arrear accounts at year end and no councilor had an arrear account outstanding for more than 90 days during and at the end of the year.

LETSEMENG LOCAL MUNICIPALITY  
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	2010 R	2009 R
<b>32 CASH RECEIVED FROM CUSTOMERS AND GOVERNMENT</b>		
Total revenue	69 532 118	56 971 092
Adjusted for items presented separately:		
Interest received on Debtors	(1 681 755)	(1 196 085)
Interest on Investment	-	(301 143)
Dividends received	(19 092)	(13 350)
Adjustments in respect of previous years' operating transactions	675 086	
Adjusted for changes in working capital:	(13 808 346)	(3 433 064)
(Increase)/decrease in consumer receivables	(12 711 159)	(944 011)
Decrease/(Increase) in other receivables	211 191	(858 284)
Decrease/(Increase) in VAT debtors	(1 308 378)	(1 630 769)
	<b>54 698 010</b>	<b>52 027 451</b>
<b>33 CASH PAID TO SUPPLIERS AND EMPLOYEES</b>		
Total expenditure	56 557 705	58 664 560
Adjusted for non-cash items:		
Depreciation	(6 997 820)	(7 102 502)
Contribution to bad debt provision	-	(10 961 724)
Adjusted for items presented separately:		
Interest paid	(51 440)	(169 878)
Adjusted for changes in working capital:	(12 617 337)	(8 082 208)
Increase/(decrease) in payables	1 149 291	2 181 708
Increase/(decrease) in accruals	(264 984)	466 451
(Decrease) in inventory	-	-
(Decrease)/Increase in unspent conditional grants	11 112 000	1 405 578
Increase/(decrease) in deferred conditional grants	(25 150 008)	(12 135 945)
Decrease in VAT payable	536 364	-
	<b>36 891 108</b>	<b>32 348 248</b>
<b>34 CASH GENERATED BY OPERATIONS</b>		
Reconciliation of net operating profit/(loss) to cash generated from operations		
Net operating profit/(loss)	12 974 413	(1 693 469)
Adjusted for:		
Depreciation	6 997 820	7 102 502
Interest received	(1 681 755)	(1 196 085)
Dividends received	(19 092)	(13 350)
Contribution to bad debt provision	-	10 961 724
Interest - other	-	(301 143)
Interest paid	51 440	169 878
Adjustments in respect of previous years' operating transactions	759 752	-
Changes in working capital:	(1 275 675)	4 649 142
Decrease/(Increase) in other receivables	211 191	(858 284)
(Increase)/decrease in consumer receivables	(12 711 159)	(944 011)
Decrease in inventory	-	-
(Decrease)/increase in conditional grants	11 112 000	(1 405 578)
Decrease in deferred grants	-	12 135 945
Increase/(Decrease) in payables	1 149 291	(2 181 708)
Increase/(Decrease) in accruals	(264 984)	(466 451)
Increase/(Decrease) in VAT	(772 014)	(1 630 771)
	<b>17 806 902</b>	<b>19 679 199</b>



**LETSEMENG LOCAL MUNICIPALITY  
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	2010 R	2009 R
<b>35 CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents included in the cash flow statement comprise the following amounts:		
Positive bank balances		
Outstanding Items	-	(49)
Petty cash	694	809
<b>Cash and cash equivalents</b>	<u>694</u>	<u>760</u>
Bank overdraft	(2 788 539)	(1 578 434)
<b>Total cash and cash equivalents</b>	<u>(2 787 845)</u>	<u>(1 577 674)</u>

Refer to note 4 for a breakdown of cash book balances and balances per bank statements.

**36 OPERATING LEASES**

The council leases various assets under a non-cancellable operating lease. There is no escalation per year and the lease expires during November 2010.

The future minimum lease payments under non-cancellable operating leases are as follows:

Payable within 1 year	43 495	104 388
Payable within 1 - 5 years	-	43 495
Payable later than 5 years	-	-
	<u>43 495</u>	<u>147 883</u>

**37 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with the budget is set out in Annexure E.

**38 EVENTS AFTER THE REPORTING DATE**

No events after the reporting date identified.

**39 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE**

**39.1 Fruitless and wasteful expenditure**

No fruitless and wasteful expenditure has been incurred during the year.

**39.2 Irregular expenditure**

Irregular expenditure at the beginning of the year	191 392	-
Irregular expenditure incurred during the year	-	191 392
Approved or condoned by the council	-	-
	<u>191 392</u>	<u>191 392</u>

**39.2 Unauthorised expenditure**

No unauthorised expenditure has been incurred during the year.

**40 RELATED PARTIES**

No related party transactions occurred during the year.

**41 SUPPLY CHAIN MANAGEMENT**

Paragraph 12(1)(d)(l) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Letsemeng Local Municipality did comply with this requirement.

**42 FINANCIAL RISK MANAGEMENT**

**42.1 Equity risk management**

The Municipality manages its capital to ensure that it will be able to continue as a going concern through the optimisation of the debt and equity balance. The Municipality's overall strategy remains unchanged from 2006.

The equity structure of the Municipality consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents and accumulated funds.

**42.1.1 Gearing ratio**

The Municipality manages its risk by ensuring that risky borrowings are maintained at a minimum. The gearing ratio at the year end was as follows:

Debt	-	-
Cash and cash equivalents	2 788 539	1 578 434
Net debt	-	-
Equity	138 285 947	100 408 963

Debt is defined as long- and short-term borrowings, as detailed in note 13.  
Equity includes all accumulated surplus/deficit and reserves of the Municipality.

**LETSEMENG LOCAL MUNICIPALITY  
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**2010  
R**                      **2009  
R**

**42.2 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note on accounting policy to the financial statements.

**42.3 Categories of financial instruments**

Fair value through profit or loss (FVTPL)	72 609	61 803
Loans and receivables (including cash and cash equivalents)	694	760

**Financial liabilities**

Amortised cost

-

At the reporting date there are no significant concentrations of credit risk for loans and receivables designated at FVTPL. The carrying amount reflected above represents the Municipality's maximum exposure to credit risk for such loans and receivables.

The fair value of cumulative shares was estimated by obtaining investee's quotes for the shares at the reporting date

**42.4 Financial risk management objectives**

The Municipality through its finance committee assesses and monitors the financial risks relating to its operations by analysing the degree and magnitude of exposure to risks. These risks include market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Municipality seeks to minimise the effects of these risks by making short term investments which are used to withdrawn when there are indicators of fragility in the market factors and as when cash is required to fund the Municipality's operations. The Municipality does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The finance committee monitors risks and policies implemented to mitigate risk exposures.

**42.5 Market risk**

The Municipality's activities expose it primarily to the financial risks of changes in interest rates. The Municipality enters into a variety of derivative financial instruments to manage its exposure to interest rate. There is no exposure to foreign currency risk as all the investments are made with South Africa's local financial institution. Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analysis. There has been no change to the Municipality's exposure to market risks or the manner in which it manages and measures the risk.

**42.6 Interest rate risk management**

The Municipality is exposed to interest rate risk as it make investment in interest yielding investments with fixed interest rates. The risk is managed by the Municipality maintaining a balanced portfolio of investments with different financial institutions. Hedging activities are not implemented as most of the investments are short term and with limited exposure to interest rate risk

**42.7 Other price risks**

The Municipality is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Municipality does not actively trade these investments. The only shares held are the Senwes shares.

**42.8 Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. The Municipality has adopted a policy of only dealing with creditworthy counterparties where appropriate, as a means of mitigating the risk of financial loss from defaults. The Municipality only invests with entities that are rated the equivalent of investment grade and above. This information is supplied by requesting for quotations prior to entering an investment deals well as using other publicly available financial information and its own trading records. Trade receivables consist of a large number of customers, spread across diverse economic groups. Ongoing communication to sensitise the community about the need to settle their accounts is effected as well as efforts to have prepaid meters installed in the households to minimise the impact of non-payment of accounts.

**42.9 Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Council and the finance committee 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. The Municipality also gets funding from the National and provincial governments which help to ease the pressure of any liquidity crisis.

**43 Going Concern**

This municipality depends on Grants, it will continue to operate as a going concern and allocations by Division of Revenue Act (DORA).

LETSEMENG LOCAL MUNICIPALITY

APPENDIX A

SCHEDULE OF EXTERNAL LOANS  
AS AT 30 JUNE 2009

EXTERNAL LOANS	Loan Number	Interest rate	Redeemable	Balance at 1 July 2009	Received during the period	Redeemed/ written off during the period	Balance at 30 June 2010
LONG-TERM LOANS				R	R	R	R
Development Bank of South Africa	7(L)	12.60%	31 December 2012	7 140	-	7 140	-
Development Bank of South Africa	6(L)	10.75%	31 July 2013	3 575	-	3 575	-
<b>Total long-term loans</b>				10 714	0	10 714	0

**LETSEMENG LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**  
**FOR THE YEAR ENDED 30 JUNE 2010**

APPENDIX B										
LETSEMENG LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010										
	Cost/Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
<b>Land and Buildings</b>										
Land	122 620	-	-	-	122 620	34 402	4 087	-	38 489	84 131
Buildings	8 722 877	-	-	-	8 722 877	2 829 977	676 113	-	3 506 090	5 216 787
	<b>8 845 497</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 845 497</b>	<b>2 864 378</b>	<b>680 201</b>	<b>-</b>	<b>3 544 579</b>	<b>5 300 918</b>
<b>Infrastructure</b>										
Drains	-	-	-	-	-	-	-	-	-	-
Roads	8 074 651	14 422 538	4 081 888	-	26 579 077	2 607 249	563 523	-	3 170 772	23 408 305
Sewerage Mains & Purif	46 781 974	33 791 460	3 606 419	-	84 179 852	15 926 506	2 343 351	-	18 269 857	65 909 995
Electricity Mains	6 310 338	2 223 682	666 993	-	9 201 013	2 363 166	314 596	-	2 677 762	6 523 251
Refuse removal	-	629 674	-	-	629 674	-	-	-	-	629 674
Water Mains & Purification	-	-	-	-	-	-	-	-	-	-
Reservoirs – Water	6 632 590	-	-	-	6 632 590	2 466 519	331 630	-	2 798 148	3 834 442
Water Meters	4 102 125	-	-	-	4 102 125	1 495 653	207 623	-	1 703 276	2 398 849
Water Mains	26 391 044	5 771 597	-	-	32 162 641	9 903 531	1 319 552	-	11 223 083	20 939 558
Pedestrian Malls	-	-	-	-	-	-	-	-	-	-
Security Measures	16 363	-	-	-	16 363	4 091	5 454	-	9 545	6 818
	<b>98 309 084</b>	<b>56 838 952</b>	<b>8 355 300</b>	<b>-</b>	<b>163 503 335</b>	<b>34 766 715</b>	<b>5 085 729</b>	<b>-</b>	<b>39 852 444</b>	<b>123 650 891</b>
<b>Community Assets</b>										
Parks & Gardens	5 343 424	-	-	-	5 343 424	439 632	178 114	-	617 747	4 725 678
Libraries	1 312 000	-	-	-	1 312 000	368 089	43 733	-	411 822	900 178
Recreation Grounds	3 724 512	3 166 163	632 520	-	7 523 195	702 850	154 851	-	857 701	6 665 494
Civic Buildings	1 539 810	-	-	-	1 539 810	418 461	51 327	-	469 788	1 070 022
	<b>11 919 746</b>	<b>3 166 163</b>	<b>632 520</b>	<b>-</b>	<b>15 718 429</b>	<b>1 929 032</b>	<b>428 026</b>	<b>-</b>	<b>2 357 058</b>	<b>13 361 372</b>
<b>Heritage Assets</b>										
Historical Buildings	-	-	-	-	-	-	-	-	-	-
Painting & Art Galleries	-	-	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Housing Rental Stock</b>										
Housing Rental 1	693 000	-	-	-	693 000	194 425	23 100	-	217 525	475 475
Housing Rental 2	-	-	-	-	-	-	-	-	-	-
	<b>693 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>693 000</b>	<b>194 425</b>	<b>23 100</b>	<b>-</b>	<b>217 525</b>	<b>475 475</b>
<b>Other Assets</b>										
Landfill sites	-	-	-	-	-	-	-	-	-	-
Office Equipment	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	766 204	-	-	-	766 204	313 383	178 306	-	491 689	274 515
Bins and Containers	-	-	-	-	-	-	-	-	-	-
Emergency Equipment	-	-	-	-	-	-	-	-	-	-
Motor vehicles	6 282 728	-	-	-	6 282 728	2 566 690	421 291	-	2 987 981	3 294 746
Fire engines	-	-	-	-	-	-	-	-	-	-
Refuse tankers	-	-	-	-	-	-	-	-	-	-
Computer equipment	996 515	-	-	-	996 515	693 059	156 607	-	849 666	146 850
Computer software	-	-	-	-	-	-	-	-	-	-
Councillors Regalia	-	-	-	-	-	-	-	-	-	-
Conservancy tankers	-	-	-	-	-	-	-	-	-	-
Plant and Machinery	575 208	-	-	-	575 208	382 826	-	-	382 826	192 382
	<b>8 620 655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 620 655</b>	<b>3 955 958</b>	<b>756 204</b>	<b>-</b>	<b>4 712 162</b>	<b>3 908 493</b>
<b>GRAND TOTAL</b>	<b>128 387 982</b>	<b>60 005 115</b>	<b>8 987 820</b>	<b>-</b>	<b>197 380 916</b>	<b>43 710 508</b>	<b>6 973 259</b>	<b>-</b>	<b>50 683 768</b>	<b>146 697 149</b>

LETSEMENG LOCAL MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2010

DETAILS	COST					Accumulated Depreciation					CARRYING VALUE
	OPENING BALANCE	ADDITIONS	CONSTRUCTIONS	DISPOSALS	CLOSING BALANCE	OPENING BALANCE	DEPRECIATION	DISPOSALS	CLOSING BALANCE		
Planing and Development Executive & Council	112 808	-	-	-	112 808	112 808	-	-	112 808	-	
Finance and Administration	7 026 616	-	-	-	7 026 616	1 865 849	402 131	-	2 267 980	4 758 636	
Health	4 274 221	-	-	-	4 274 221	1 109 255	142 474	-	1 251 729	3 022 492	
Community & Social Services	11 511 561	-	2 120 873	-	13 632 434	2 325 481	756 656	-	3 082 137	10 550 298	
Sports & Recreation	4 442 410	-	632 520	-	5 074 930	904 260	178 781	-	1 083 041	3 991 888	
Waste Management	14 797 049	-	-	-	14 797 049	1 373 372	4 807	-	1 378 179	13 418 870	
Waste Water Management	60 103 477	-	7 368 941	-	67 472 417	15 960 506	2 347 351	-	18 307 857	49 164 560	
Road Transport	22 841 401	-	5 018 734	-	27 860 135	3 778 468	957 040	-	4 735 508	23 124 627	
Water	44 792 349	-	3 120 580	-	47 912 929	13 909 621	1 863 971	-	15 773 592	32 139 337	
Electricity	8 755 677	-	461 690	-	9 217 367	2 370 888	320 047	-	2 690 936	6 526 431	
	<b>178 657 569</b>	-	<b>18 723 337</b>	-	<b>197 380 906</b>	<b>43 710 509</b>	<b>6 973 259</b>	-	<b>50 683 768</b>	<b>146 697 138</b>	

LETSEMENG LOCAL MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2010

2009 ACTUAL INCOME R	2009 ACTUAL EXPENSES R	2009 SURPLUS/ (DEFICIT) R		2010 ACTUAL INCOME	2010 ACTUAL EXPENSES	2010 SURPLUS/ (DEFICIT)
630 308	2 298 231	(1 667 923)	Executive & Council	587 081	2 613 112	(2 026 031)
9 639 570	13 908 460	(4 268 890)	Finance and Administration	9 257 478	17 575 484	(8 318 006)
97 275	2 154 790	(2 057 515)	Planning & Development	-	2 813 331	(2 813 331)
763 577	1 732 778	( 969 201)	Community & Social Services	1 255 123	1 967 102	( 711 978)
53 875	-16 955	70 830	Housing	60 800	75 233	( 14 433)
478 504	12 569	465 935	Public Safety	657 625	66	657 559
0	347 443	( 347 443)	Sports & Recreation	329 717	215 992	113 724
0	381 992	( 381 992)	Environmental Protection	-	358 835	( 358 835)
11 014 111	6 361 485	4 652 626	Waste Management	11 152 083	1 974 957	9 177 126
10 932 261	7 596 878	3 335 383	Waste Water Management	11 381 197	3 427 093	7 954 104
9 091	4 775 965	(4 766 874)	Road Transport	11 112	4 857 305	(4 846 193)
13 121 597	9 181 779	3 939 818	Water	14 091 452	7 274 633	6 816 819
10 213 902	9 912 126	301 776	Electricity	20 743 982	13 400 095	7 343 888
<b>56 954 071</b>	<b>58 647 541</b>	<b>(1 693 468)</b>	<b>TOTAL</b>	<b>69 527 651</b>	<b>56 553 237</b>	<b>12 974 414</b>

LETSEMENG LOCAL MUNICIPALITY

APPENDIX E (1)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Actual ( R )	2010 Budget ( R )	2010 Variance ( R )	2010 Variance (%)	Explanation of Significant Variances greater than 10% versus Budget
<b>REVENUE</b>					
Property rates	3 500 710	3 313 823	186 887	5.64%	Good collection
Service charges	28 463 496	24 550 293	3 913 203	15.94%	Good collection
Rental of building	339 256	304 589	34 667	11.38%	Good collection
Interest on debtors	1 681 755	1 210 494	471 261	38.93%	Good collection
Interest on Investment	339 427	0	339 427	0.00%	Most investments were withdrawn in the previous year
Dividends received	19 092	19 949	-857	-4.30%	Not material
Government grants and subsidies	34 675 982	33 238 330	1 437 652	4.33%	Increase in allocation from the National treasury and other subsidies
Other income	512 400	277 915	234 485	84.37%	Good collection
Bad debts recovered	0	10 364	-10 364	-100.00%	No bad debt recovered during the year
<b>Total Revenue</b>	<b>69 532 118</b>	<b>62 925 757</b>	<b>6 606 361</b>	<b>10.50%</b>	
<b>EXPENDITURE</b>					
Employee related costs	18 352 117	20 263 836	-1 911 719	-9.43%	Not material
Remuneration of Councillors	1 720 574	0	1 720 574	0.00%	Not material
Bad debts	0	0	0	0.00%	
Depreciation	6 997 820	1 500 000	5 497 820	366.52%	Under budgeted
Repairs and maintenance	2 117 693	2 566 565	-448 872	-17.49%	Expense dependable on uncontrollable circumstances
Interest paid	51 440	310 821	-259 381	-83.45%	Municipality experienced better cashflow
Bulk purchases	11 304 972	12 411 775	-1 106 803	-8.92%	Not material
General expenses	16 013 088	15 251 313	761 775	4.99%	Not material
<b>Total Expenditure</b>	<b>56 557 705</b>	<b>52 304 310</b>	<b>4 253 395</b>	<b>8.13%</b>	
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>12 974 413</b>	<b>10 621 447</b>	<b>2 352 966</b>		

LETSEMENG LOCAL MUNICIPALITY

APPENDIX E (2)

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT)

FOR THE YEAR ENDED 30 JUNE 2010

	<u>2010</u> <u>Actual</u>	<u>2010</u> <u>Under</u> <u>Construction</u>	<u>2010</u> <u>Total</u> <u>Additions</u>	<u>2010</u> <u>Budget</u>	<u>2010</u> <u>Variance</u>	<u>2010</u> <u>Variance</u>	<u>Explanation of Significant Variances</u> <u>greater than 5% versus Budget</u>
	R	R	R	R	R	%	
Executive & Council	-	-	-	-	-	0.00%	
Finance and Administration	-	-	-	-	-	0.00%	
Health	-	-	-	-	-	0.00%	
Community & Social Services	-	2 120 873	2 120 873	2 250 000	( 129 127)	-5.74%	Not Material
Sports & Recreation	-	632 520	632 520	504 100	128 420	25.48%	The project is from the previous year.
Waste Management	-	-	-	-	-	0.00%	
Waste Water Management	-	7 368 941	7 368 941	13 101 320	(5 732 379)	-43.75%	Not Material
Road Transport	-	5 018 734	5 018 734	1 080 806	3 937 928	364.35%	The project is from the previous year.
Water	-	3 120 580	3 120 580	6 741 698	(3 621 118)	-53.71%	Not Material
Electricity	-	461 690	461 690	-	461 690	0.00%	The project is from the previous year.
			-		-		
<b>TOTAL</b>	<b>-</b>	<b>18 723 337</b>	<b>18 723 337</b>	<b>23 677 924</b>	<b>(5 416 277)</b>	<b>-22.87%</b>	



LETSEMENG LOCAL MUNICIPALITY

APPENDIX F

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

FOR THE YEAR ENDED 30 JUNE 2010

Name of Grants	Name Organ of State or Municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reasons for delay / withholding of funds	Compliance with conditions (Y/N)	Reasons for non-compliance	
		September	December	March	June	September	December	March	June	September	December	March	June				
		R	R	R	R	R	R	R	R								
Equitable Share Financial Management Grant	Equitable Share Financial Management Grant	13 297 818	10 638 678	7 978 691		7 978 797	7 978 797	7 978 797	7 978 797	-	-	-	-	-	Y		
		750 000				111 000	417 000	111 000	111 000	-	-	-	-	-	Y	-	
Training Municipality Infrastructure Grant	Municipal Systems Improvement Grant		400 000			200 000			200 000	-	-	-	-	-	Y	-	
	Municipality Infrastructure Grant	1 379 000	-	8 159 795	3 563 205	121 191	2 997 446	6 862 446	3 120 917	-	-	-	-	-	Y	-	
Urban Planning	Department of Local Government and Housing	132 500			-	71 500				-	-	-	-	-	Y	-	

There is no anticipated significant decrease in the level of government grants.