



King Sabata Dalindyebo Municipality  
Financial statements  
for the year ended 30 June 2013

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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### Nature of business and principal activities

King Sabata Dalindyebo Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

The municipality's operations are governed by:

- Municipal Finance Management act 56 of 2003

- Municipal Structure Act 117 of 1998

- Municipal Systems Act 32 of 2000 and various other acts and regulations

### Mayoral committee

Executive Mayor

Portfolio Heads

Cllr N Ngqongwa

Cllr LS Nduku (Infrastructure)

Cllr LN Ntlonze (SPU)

Cllr MS Mlandu (Public Safety and Transport & Disaster Management)

Cllr FRS Ngcobo (Budget and Treasury)

Cllr LR Madyibi (Community Services & Planning)

### Councillors

Cllr AZ Luyenge

Cllr N Gcingca

Cllr KK Mdikane

Cllr N Nyangani

Cllr B Mazini

Cllr B Momoza

Cllr B Ndlobongela

Cllr BD Bara

Cllr DM Zozo (Chief Whip)

Cllr EM Fileyo

Cllr ET Mapekula

Cllr FM Mtwá

Cllr FV Dondashe (Speaker)

Cllr GN Nelani

Cllr HN Maroloma

Cllr J Dlamini

Cllr KN Kwetana

Cllr KW Tsipa

Cllr LA Tshiseka

Cllr LL Mkhonto

Cllr LM Luwaca

Cllr M Bunzana

Cllr M Gogo

Cllr M Jafta

Cllr M Mavukwana

Cllr M Menzelwa

Cllr M Ngabayena

Cllr M Nyoka

Cllr M Plam

Cllr MA Zimela

Cllr MH Mtirara

Cllr MI Xentsa

Cllr MJ Msakeni

Cllr N Mpemnyama

Cllr N Mtwá

Cllr N Ngqongwa

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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Cllr N Pali  
Cllr N Qwase  
Cllr N Sikhonkothela  
Cllr NA Ndlela  
Cllr NC Jijana  
Cllr NF Mzimane  
Cllr NM Luqhide  
Cllr NS Kwaza  
Cllr NSS Qina  
Cllr PP Nontshiza  
Cllr R Knock  
Cllr S Budu  
Cllr S Mlamli  
Cllr SS Njemela  
Cllr ST Peters  
Cllr T Nomvete  
Cllr T Nqadolo  
Cllr TM Mtirara  
Cllr V Dangala  
Cllr VN Roji  
Cllr VN Xhobani  
Cllr VO Gwadiso  
Cllr WV Sanda  
Cllr XT Matiti  
Cllr Z Magazi  
Cllr ZN Gusana  
Cllr ZN Mncunza  
Cllr ZV Maqabuka

**Grading of local authority**

Grade 4

**Chief Finance Officer (CFO)**

Noluthando Ntshanga

**Accounting Officer**

Z Z Mnqanqeni

**Registered office**

Munitata Building  
Sutherland Street  
Mthatha  
5099

**Postal address**

Private Bag X 5083  
Mthatha  
5099

**Bankers**

ABSA  
First National Bank



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Index

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page xx.

The financial statements set out on pages 5 to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

  
Accounting Officer  
Z Z Mnqanqeni

Mthatha

31 August 2013



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Notes	2013	2012
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	3,098,799	2,876,983
Investments	7	216,895,290	180,205,668
Receivables from exchange transactions	10	82,374,201	52,729,746
Receivables from non-exchange transactions	11	11,638,831	27,613,716
VAT receivable	12	14,806,746	5,565,993
Cash and cash equivalents	13	21,292,971	39,129,037
		<b>350,106,838</b>	<b>308,121,143</b>
<b>Non-Current Assets</b>			
Investment property	4	124,511,350	103,189,053
Property, plant and equipment and intangible assets	5	1,524,957,163	1,500,139,799
Intangible assets	6	98,188	242,733
		<b>1,649,566,701</b>	<b>1,603,571,585</b>
Non-Current Assets		1,649,566,701	1,603,571,585
Current Assets		350,106,838	308,121,143
Non-current assets held for sale (and) (assets of disposal groups)		-	-
<b>Total Assets</b>		<b>1,999,673,539</b>	<b>1,911,692,728</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	17	8,957,937	6,928,034
Finance lease obligation	15	148,790	257,334
Payables from exchange transactions	19	376,760,934	100,521,812
Consumer deposits	20	3,047,001	1,994,041
Unspent conditional grants and receipts	16	142,710,819	98,120,443
Provisions	18	-	389,179,463
		<b>531,625,481</b>	<b>597,001,127</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	17	59,169,214	58,072,751
Provisions	18	23,292,803	26,271,201
		<b>82,462,017</b>	<b>84,343,952</b>
Non-Current Liabilities		82,462,017	84,343,952
Current Liabilities		531,625,481	597,001,127
Liabilities of disposal groups		-	-
<b>Total Liabilities</b>		<b>614,087,498</b>	<b>681,345,079</b>
Assets		1,999,673,539	1,911,692,728
Liabilities		(614,087,498)	(681,345,079)
<b>Net Assets</b>		<b>1,385,586,041</b>	<b>1,230,347,649</b>
Reserves			
Revaluation reserve	14	132,220,784	132,725,884
Accumulated surplus		1,253,365,259	1,097,621,766
<b>Total Net Assets</b>		<b>1,385,586,043</b>	<b>1,230,347,650</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Notes	2013	2012
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	258,605,608	216,035,554
Rental of facilities and equipment		13,629,466	12,505,062
Licences and permits		11,438,155	11,011,360
Decrease in provisions		149,114,167	-
Other income	27	12,841,188	10,779,272
Interest received - investment	33	30,378,515	30,619,334
Dividends received	33	3,754	12,282
<b>Total revenue from exchange transactions</b>		<b>476,010,853</b>	<b>280,962,864</b>
<b>Revenue from non-exchange transactions</b>			
<i>Taxation revenue</i>			
Property rates	23	131,782,195	128,536,523
<i>Transfer revenue</i>			
Government grants & subsidies	25	274,408,110	319,348,111
Public contributions and donations	26	851,200	20,000
Fines		2,063,415	1,606,678
<b>Total revenue from non-exchange transactions</b>		<b>409,104,920</b>	<b>449,511,312</b>
		476,010,853	280,962,864
		409,104,920	449,511,312
<b>Total revenue</b>	22	<b>885,115,773</b>	<b>730,474,176</b>
<b>Expenditure</b>			
Personnel	29	(244,016,244)	(226,958,761)
Remuneration of councillors	30	(19,035,730)	(17,521,100)
Management fees	31	(1,165,958)	(3,181,021)
Depreciation and amortisation	35	(97,076,951)	(88,212,555)
Impairment loss	36	-	(91,671,608)
Finance costs	37	(5,631,255)	(6,067,587)
Debt impairment	32	(25,676,864)	(22,131,930)
Repairs and maintenance		(35,889,939)	(23,265,146)
Bulk purchases	42	(162,453,730)	(145,821,943)
Contracted services	40	(17,141,836)	(17,277,545)
Grants and subsidies paid	41	(27,817,077)	(26,198,220)
General Expenses	28	(111,365,788)	(498,081,219)
<b>Total expenditure</b>		<b>(747,271,372)</b>	<b>(1,166,388,635)</b>
		-	-
Total revenue		885,115,773	730,474,176
Total expenditure		(747,271,372)	(1,166,388,635)
<b>Operating surplus (deficit)</b>		<b>137,844,401</b>	<b>(435,914,459)</b>
Loss on disposal of assets and liabilities		(4,218,976)	(505,518)
Fair value adjustments	34	21,827,397	16,377,953
		<b>17,608,421</b>	<b>15,872,435</b>
Surplus (deficit) before taxation		155,452,822	(420,042,024)
Taxation		-	-
<b>Surplus (deficit) for the year</b>		<b>155,452,822</b>	<b>(420,042,024)</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	61,811,506	1,521,926,684	1,583,738,190
Adjustments			
Correction of errors	1,219,222	(3,702,713)	(2,483,491)
Change in accounting policy	-	(600,837)	(600,837)
<b>Balance at 01 July 2011 as restated</b>	<b>63,030,728</b>	<b>1,517,623,134</b>	<b>1,580,653,862</b>
Changes in net assets			
Revaluation of land and buildings	69,695,156	-	69,695,156
Movement in reserves	-	40,656	40,656
Net income (losses) recognised directly in net assets	69,695,156	40,656	69,735,812
Surplus for the year	-	(420,042,024)	(420,042,024)
Total recognised income and expenses for the year	69,695,156	(420,001,368)	(350,306,212)
Total changes	69,695,156	(420,001,368)	(350,306,212)
<b>Balance at 01 July 2012</b>	<b>132,725,884</b>	<b>1,097,621,765</b>	<b>1,230,347,649</b>
Changes in net assets			
Revaluation of land and buildings	(505,100)	-	(505,100)
Movement in reserves	-	290,672	290,672
Net income (losses) recognised directly in net assets	(505,100)	290,672	(214,428)
Surplus for the year	-	155,452,822	155,452,822
Total recognised income and expenses for the year	(505,100)	155,743,494	155,238,394
Total changes	(505,100)	155,743,494	155,238,394
<b>Balance at 30 June 2013</b>	<b>132,220,784</b>	<b>1,253,365,259</b>	<b>1,385,586,043</b>
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Notes	2013	2012
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		416,044,328	363,066,250
Grants		315,621,081	333,047,349
Interest income		30,378,515	30,619,334
Dividends received		3,754	12,282
Donations received		851,200	20,000
		<u>762,898,878</u>	<u>726,765,215</u>
<b>Payments</b>			
Employee costs		(263,232,656)	(244,479,861)
Suppliers		(352,521,157)	(309,971,879)
Finance costs		(5,631,255)	(6,067,587)
		<u>(621,385,068)</u>	<u>(560,519,327)</u>
Total receipts		762,898,878	726,765,215
Total payments		(621,385,068)	(560,519,327)
<b>Net cash flows from operating activities</b>	43	<b><u>141,513,810</u></b>	<b><u>166,245,888</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	5	(126,101,507)	(171,750,413)
Proceeds from sale of property, plant and equipment and intangible assets	5	(4,218,976)	7,401
Purchase of other intangible assets	6	(450,498)	-
Proceeds from sale of financial assets		(36,689,622)	(21,243,702)
		<u>(167,460,603)</u>	<u>(192,986,714)</u>
<b>Net cash flows from investing activities</b>		<b><u>(167,460,603)</u></b>	<b><u>(192,986,714)</u></b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		3,126,366	7,762,629
Finance lease payments		(108,544)	(90,337)
Other cash item		5,092,905	32,121,693
		<u>8,110,727</u>	<u>39,793,985</u>
<b>Net cash flows from financing activities</b>		<b><u>8,110,727</u></b>	<b><u>39,793,985</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(17,836,066)</b>	<b>13,053,159</b>
Cash and cash equivalents at the beginning of the year		39,129,037	26,075,879
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>21,292,971</u></b>	<b><u>39,129,038</u></b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	241,650,282	-	241,650,282	258,605,608	16,955,326	
Rental of facilities and equipment	14,003,069	-	14,003,069	13,629,466	(373,603)	
Licences and permits	12,977,958	-	12,977,958	11,438,155	(1,539,803)	
Decrease in provisions	-	-	-	149,114,167	149,114,167	
Other income	41,446,387	-	41,446,387	12,841,188	(28,605,199)	
Interest received - investment	30,600,139	-	30,600,139	30,378,515	(221,624)	
Dividends received	-	-	-	3,754	3,754	
<b>Total revenue from exchange transactions</b>	<b>340,677,835</b>	<b>-</b>	<b>340,677,835</b>	<b>476,010,853</b>	<b>135,333,018</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	138,453,907	-	138,453,907	131,782,195	(6,671,712)	
Government grants & subsidies	527,166,282	-	527,166,282	274,408,110	(252,758,172)	
<b>Transfer revenue</b>						
Public contributions and donations	-	-	-	851,200	851,200	
Fines	3,396,979	-	3,396,979	2,063,415	(1,333,564)	
<b>Total revenue from non-exchange transactions</b>	<b>669,017,168</b>	<b>-</b>	<b>669,017,168</b>	<b>409,104,920</b>	<b>(259,912,248)</b>	
'Total revenue from exchange transactions'	340,677,835	-	340,677,835	476,010,853	135,333,018	
'Total revenue from non-exchange transactions'	669,017,168	-	669,017,168	409,104,920	(259,912,248)	
<b>Total revenue</b>	<b>1,009,695,003</b>	<b>-</b>	<b>1,009,695,003</b>	<b>885,115,773</b>	<b>(124,579,230)</b>	
<b>Expenditure</b>						
Personnel	(239,877,491)	-	(239,877,491)	(244,016,244)	(4,138,753)	
Remuneration of councillors	(22,895,192)	-	(22,895,192)	(19,035,730)	3,859,462	
Administration	(1,447,698)	-	(1,447,698)	(1,165,958)	281,740	
Depreciation and amortisation	(136,000,000)	-	(136,000,000)	(97,076,951)	38,923,049	
Finance costs	(4,951,927)	-	(4,951,927)	(5,631,255)	(679,328)	
Debt impairment	(56,932,053)	-	(56,932,053)	(25,676,864)	31,255,189	
Repairs and maintenance	(56,527,490)	-	(56,527,490)	(35,889,939)	20,637,551	
Bulk purchases	(169,478,375)	-	(169,478,375)	(162,453,730)	7,024,645	
Contracted Services	(17,212,420)	-	(17,212,420)	(17,141,836)	70,584	
Grants and subsidies paid	(37,842,192)	-	(37,842,192)	(27,817,077)	10,025,115	
General Expenses	(88,962,846)	-	(88,962,846)	(111,365,788)	(22,402,942)	
<b>Total expenditure</b>	<b>(832,127,684)</b>	<b>-</b>	<b>(832,127,684)</b>	<b>(747,271,372)</b>	<b>84,856,312</b>	
	1,009,695,003	-	1,009,695,003	885,115,773	(124,579,230)	
	(832,127,684)	-	(832,127,684)	(747,271,372)	84,856,312	
<b>Operating surplus</b>	<b>177,567,319</b>	<b>-</b>	<b>177,567,319</b>	<b>137,844,401</b>	<b>(39,722,918)</b>	



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Loss on disposal of assets and liabilities	-	-	-	(4,218,976)	<b>(4,218,976)</b>	
Fair value adjustments	-	-	-	21,827,397	<b>21,827,397</b>	
	-	-	-	<b>17,608,421</b>	<b>17,608,421</b>	
	177,567,319	-	<b>177,567,319</b>	137,844,401	<b>(39,722,918)</b>	
	-	-	-	17,608,421	<b>17,608,421</b>	
<b>Surplus before taxation</b>	<b>177,567,319</b>	-	<b>177,567,319</b>	<b>155,452,822</b>	<b>(22,114,497)</b>	
Deficit before taxation	177,567,319	-	<b>177,567,319</b>	155,452,822	<b>(22,114,497)</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>177,567,319</b>	-	<b>177,567,319</b>	<b>155,452,822</b>	<b>(22,114,497)</b>	

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

#### Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of cash-generating assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 101 - Agriculture
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

#### Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

- GRAP 20 - Related Party Disclosures
- GRAP 25 - Employee Benefits
- GRAP 31 - Intangible Assets (replace GRAP 102)
- Improvements to Standards of GRAP

#### Standards Issued, no Effective Date - can base accounting policy on, cannot early adopt

- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

#### Standards Issued, no Effective Date - cannot use

- GRAP 18 - Segmental Reporting



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### Interpretations

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

### 1.1 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with South African Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. These include:

#### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgment as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

On receivables an impairment loss is recognised in the surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at the initial recognition.

#### Impairment testing

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 less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific variables and economic factors.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Retirement Benefit Obligation note, to the financial statements.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Effective interest rate

The Municipality makes use of government bond rate to discount future cash flows in the event of it being material.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.2 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction (at no cost or for a nominal value), its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of self-constructed investment property is the cost at the date of completion.

The following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for currently undetermined future use. If the Municipality has not determined that it will use the land as owner-occupied property, or for a short term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the Municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, Plant and Equipment or Non-current Assets Held for Sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as Investment Property;
- Property that is leased out under a finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and or service delivery.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interest held under operating leases are classified and accounted for as investment property if property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied and from property held for sale is established by using criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance.

Investment property is unrecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Subsequent to initial recognition, Investment property is carried at fair value. No depreciation is recognised where the residual value of the property exceeds the historical cost of the Investment property.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment and intangible assets

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

The cost of an item of property, plant and equipment and intangible assets is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is unrecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent to initial measurement Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the Municipality. Components of assets that are significant in relation to the whole asset or the and that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the expenditure will flow to the entity and the cost can measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment and intangible assets (continued)

Buildings	5 - 130 years
Furniture and fixtures	3 - 5 years
Office equipment	5 - 7 years
Computer equipment	5 - 7 years
Infrastructure	
• Roads and paving	30 years
• Access roads	3 years
• Pedestrian malls	30 years
• Electricity	10-50 years
• Sewerage	15-20 years
Community	
• Buildings	30 -130 years
• Recreational equipment	20-30 years
• Security	5 years
• Halls	130 years
• Libraries	130 years
• Parks an gardens	20-30 years
• Sport fields	20-30 years
Other property, plant and equipment	
• Other vehicles	5 years
• Other items of plant and equipment	7 - 10 years
• Landfill sites	10 years
• Fire engines	10-20 years
Bins and containers	5 years
Other leased Assets	
• Motor Vehicles	5 years
Specialised vehicles	10 years

the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment and intangible assets (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### Incomplete construction work

Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

#### Finance leases

Assets capitalised under a finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the entity, or where shorter the term of the relevant lease if there is no reasonable surety that the Municipality will obtain ownership by the end of the lease term.

#### Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost are not depreciated owing to the uncertainty regarding their estimated useful lives.

#### Infrastructure assets

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

#### Derecognition of property, plant and equipment assets

The carrying amount of an item of property, plant equipment is derecognised on disposal, or when no future economic benefits or service potential are expected to flow from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

### 1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.4 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible asset is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the asset given up.

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred.

Reassessing the useful life of an intangible asset with a finite 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.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows: Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the Municipality give the Municipality access to land for specific purposes for an unlimited period however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of the value in use and the fair value less cost to sell.

The estimated useful life and amortisation methods are reviewed annually at the end of each financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance for the year.

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, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognition:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset. The gain or loss is recognised in the period in which it is incurred through the surplus or deficit for the period.

### 1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from non exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the Municipality becomes a party to the contractual provisions of the instrument.

#### Initial measurement

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

#### Gains and losses

Financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

##### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.6 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.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.6 Leases (continued)

#### The Municipality as a Lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Municipality. Property, plant and equipment or intangible assets subject of finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest rate method. Lease finance costs are expensed when incurred

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

#### Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant 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 if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

Minimum 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 reduction on the remaining balance of the liability.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue 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 revenue.

Income for leases is disclosed under revenue in statement of financial performance.

### 1.7 Inventories

Inventories comprise current assets held for sale or for consumption during the ordinary course of business. Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.7 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Subsequent to initial measurement

Consumable stores, raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. In general the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost or current replacement cost.

Redundant and slow moving inventory items are identified and written down from cost to net realisable value with regards to their estimated economic or realisable values and sold at public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period in which the is sold, utilised or written off unless it qualifies for capitalisation to the cost of an asset.

Current replacement cost is the cost to replace the item at the current reporting date.

The cost of inventories comprises all costs of purchase, conversion and other costs necessary to bring the item to their present location and condition. Where inventory is manufactured, constructed or produced the cost includes the cost of labour, material and overheads used during the manufacturing process.

The cost of inventories of items that are not ordinarily interchangeable and goods and services produced and segregated for specific projects is assigned using the specific identification of the individual costs.

### 1.8 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by progress certified from the service provider.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).



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### 1.9 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The Municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the Municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP 26 - Impairment of cash-generating assets.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



# King Sabata Dalindyebo Municipality

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### 1.9 Impairment of cash-generating assets (continued)

#### Recognition and measurement (cash-generating units)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# King Sabata Dalindyebo Municipality

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### 1.9 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and value added taxes.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:



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### 1.10 Impairment of non-cash-generating assets (continued)

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification of a potential impairment

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement of non-generating units

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP 21 - Impairment of non-cash generating assets.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



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### 1.10 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 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.

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. This is recognised as an accrual.

The expected cost of bonus payments is recognised when there is a legal or constructive obligation to make such payments as a result of past performance and a reliable estimate can be made.

#### Defined contribution plans

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

The Municipality's contribution to the fund are established in terms of the rules governing those plans. Contributions are recognised in the statement of financial performance in the period in which the service is rendered. The Municipality has no further payment obligations once the contributions have been paid.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.



# King Sabata Dalindyebo Municipality

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### 1.12 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.



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### 1.13 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

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

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

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.



# King Sabata Dalindyebo Municipality

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### 1.13 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

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

#### Finance Income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

#### Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorising tariff. This includes the issue of licenses and permits.

#### Income from Agency Services

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

#### Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.



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### 1.14 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Rates, including collection charges, penalties and interest

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 apportionment basis with reference to the principle amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from the revenue

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.



# King Sabata Dalindyebo Municipality

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### 1.14 Revenue from non-exchange transactions (continued)

#### Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

#### Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts basis or where the donation is in the form of property, plant and equipment, when such items are available for use.

#### Public Contributions

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

Where contributions have been received, but the conditions have not yet been met, a liability is recognised.

#### Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

#### Other grants and donations

The Municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

#### Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

### 1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

# King Sabata Dalindyebo Municipality

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### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds X months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
- expenditure not in terms of the conditions of the allocation from another sphere of Government, Municipality or Organ of State and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

If the expenditure is not subsequently certified as irrecoverable by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management 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 policies.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by Council it is treated as an asset until it is recovered or written off.

### 1.21 Revenue from recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

### 1.22 Presentation of currency

These financial statements are presented in South African Rand (Rounded to the nearest Rand) which is the Municipality's functional currency.

### 1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

### 1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The financial statements and budget are not on the same basis of accounting and therefore a reconciliation between the statement of financial performance and the budget have been included in the financial statements, statement of comparison of budget and actual amounts.

### 1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.26 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.27 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the notes to the financial statements where applicable.

### 1.28 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note to the financial statements.

### 1.29 Contingents assets and contingents liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

### 1.30 Events after reporting period

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

Additional text

### 1.31 Going concern

The Annual Financial Statements have been prepared on a going concern basis.

### 1.32 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act. Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act. Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT. The Municipality accounts for VAT on a payments basis.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

2012

### 2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 21 - Impairment of non cash generating assets
- GRAP 23 - Revenue from non exchange transaction
- GRAP 24 - Presentation of budget information
- GRAP 26 - Impairment of cash generating assets
- GRAP103 - Heritage assets
- GRAP 104 - Financial Instruments

#### GRAP 104 : Financial Instruments

During the year, the municipality changed its accounting policy with respect to the treatment of financial instruments. In order to conform with the benchmark treatment in of GRAP104. The municipality no longer discounts its financial assets and financial liabilities except for financial liabilities with extended credit terms. The requirements have been applied retrospectively , therefore the prior year figures have been restated as listed below.

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2012 is as follows:

#### Statement of financial position

##### Trade receivables from exchange transactions

Previously stated	-	68,043,168
Reclassification of property rates receivable to non exchange receivables	-	(14,768,113)
Adjustment	-	(71,168)
	-	<b>53,203,887</b>

##### Trade and other payables from exchange transactions

Previously stated	-	100,225,960
Adjustment	-	84,785
	-	<b>100,310,745</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>2. Changes in accounting policy (continued)</b>		
<b>Statement of Financial Performance</b>		
<b>Interest expense</b>		
Previously stated	-	9,107,015
Adjustment	-	(2,999,207)
		<b>6,107,808</b>
<b>Interest revenue</b>		
Previously stated	-	36,691,177
Adjustment	-	(4,739,391)
		<b>31,951,786</b>
<b>Services charges</b>		
Previously stated	-	213,180,169
Adjustment	-	2,855,385
		<b>216,035,554</b>
<b>Bulk purchases</b>		
Previously stated	-	144,975,664
Adjustment	-	846,279
		<b>145,821,943</b>
<b>Contracted services</b>		
Previously stated	-	17,235,780
Adjustment	-	98,967
		<b>17,334,747</b>
<b>General expenses</b>		
Previously stated	-	113,724,699
Adjustment	-	661,444
		<b>114,386,143</b>
<b>Repairs and maintenance</b>		
Previously stated	-	21,274,333
Adjustment	-	122,965
		<b>21,397,298</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### **GRAP 23: Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

##### **GRAP 24: Presentation of Budget Information in the Financial Statements**

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

#### GRAP 103: Heritage Assets

Grp 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grp 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grp 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grp 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

#### **GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

#### **GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.



## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

### 3.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

### 3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

#### GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;



## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.



## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### **GRAP 1 (as revised 2012): Presentation of Financial Statements**

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 12 (as revised 2012): Inventories**

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 13 (as revised 2012): Leases**

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 16 (as revised 2012): Investment Property**

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 17 (as revised 2012): Property, Plant and Equipment**

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)**

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)**

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

#### **IGRAP16: Intangible assets website costs**

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annual reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

#### 3.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

##### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

##### **IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue**

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

- (a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and
- (b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

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### 4. Investment property

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	124,511,350	-	124,511,350	103,189,053	-	103,189,053

#### Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	103,189,053	21,322,297	124,511,350

#### Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	88,189,700	14,999,353	103,189,053

#### Details of property

##### Municipal land and business properties with commercial improvements

The municipality has long term lease agreements of land where improvements are effected by investors for commercial purposes

- Improvements effected by investors for commercial purposes

124,511,350 103,189,053

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 30 June 2013. Revaluations were performed by an independent valuer, Mr Kwasi Agyaben-Boateng, of Messrs Khanyisa Property Management Services. Khanyisa Property Management Services are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

#### Reconciliation of valuation obtained and the valuation included in the financial statements

Amounts recognised in surplus and deficit for the year.

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand

**5. Property, plant and equipment and intangible assets**

	2013		2012			
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	92,197,300	-	92,197,300	96,437,300	-	96,437,300
Buildings	314,131,683	(12,342,653)	301,789,030	323,969,464	(9,837,781)	314,131,683
Infrastructure	1,361,526,076	(826,931,083)	534,594,993	1,344,316,136	(757,026,925)	587,289,211
Community	348,828,709	(17,192,035)	331,636,674	357,968,985	(13,853,298)	344,115,687
Other property, plant and equipment	13,487,145	(5,637,418)	7,849,727	9,195,608	(3,797,902)	5,397,706
Work in progress	253,949,373	-	253,949,373	150,181,356	-	150,181,356
Specialised vehicles	14,256,695	(11,316,629)	2,940,066	13,405,495	(10,818,639)	2,586,856
<b>Total</b>	<b>2,398,376,981</b>	<b>(873,419,818)</b>	<b>1,524,957,163</b>	<b>2,295,474,344</b>	<b>(795,334,545)</b>	<b>1,500,139,799</b>

**Reconciliation of property, plant and equipment and intangible assets - 2013**

	Opening balance	Additions	Revaluations	Depreciation	Total
Land	96,437,300	-	(4,240,000)	-	92,197,300
Buildings	314,131,683	-	-	(12,342,653)	301,789,030
Infrastructure	587,289,211	17,210,639	-	(69,904,857)	534,594,993
Community	344,115,687	-	-	(12,479,013)	331,636,674
Other property, plant and equipment	5,397,706	4,271,651	-	(1,819,630)	7,849,727
Work in progress	150,181,356	103,768,017	-	-	253,949,373
Specialised vehicles	2,586,856	851,200	-	(497,990)	2,940,066
<b>Total</b>	<b>1,500,139,799</b>	<b>126,101,507</b>	<b>(4,240,000)</b>	<b>(97,044,143)</b>	<b>1,524,957,163</b>



**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand

**5. Property, plant and equipment and intangible assets (continued)**

**Reconciliation of property, plant and equipment and intangible assets - 2012**

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
Land	90,242,998	-	(505,000)	-	6,699,302	-	-	96,437,300
Buildings	271,014,583	-	-	-	43,117,100	-	-	314,131,683
Infrastructure	708,843,188	40,804,667	-	-	-	(65,755,733)	(96,602,911)	587,289,211
Community	339,199,098	-	-	-	7,273,100	(2,356,511)	-	344,115,687
Other property, plant and equipment	3,468,010	2,945,962	(7,919)	-	-	(1,008,347)	-	5,397,706
Work in progress	67,464,541	126,872,025	-	(44,155,210)	-	-	-	150,181,356
Specialised vehicles	2,002,785	1,127,759	-	-	-	(543,688)	-	2,586,856
	<b>1,482,235,203</b>	<b>171,750,413</b>	<b>(512,919)</b>	<b>(44,155,210)</b>	<b>57,089,502</b>	<b>(69,664,279)</b>	<b>(96,602,911)</b>	<b>1,500,139,799</b>

**Pledged as security**

Carrying value of assets pledged as security:

Land and buildings	-
KSD cedes to PIC in securitization debiti rights in the municipal building of the KSD situated on Erf 9441, 47 to 49 Sutherland Street, Mithatha, measuring 8 309 square metres.	-
Finance leased assets	1,132,608
The finance leased assets have been secured for the finance lease liability.	-
	<b>1,132,608</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

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2012

### 5. Property, plant and equipment and intangible assets (continued)

#### Revaluations

The effective date of the revaluations was 30 June 2013. Revaluations were performed by an independent valuer, Mr Kwasi Agyabem-Boateng, of Messrs Khanyisa Property Management Services. Messrs Khanyisa Property Management Services are not connected to the municipality.

Land and buildings are re-valued independently every year.

These assumptions were based on current market conditions.

#### Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	779,013	(680,825)	98,188	1,374,056	(1,131,323)	242,733

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software, other	242,733	450,498	(595,043)	98,188

#### Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software, other	352,474	(109,741)	242,733

### 7. Investments

ABSA Bank - 9158414285 - 2010 Stadium Grant	146,045	145,039
Nedbank Term Deposit	25,334,345	25,240,988
ABSA Bank - 9263297136 - CMIP Call Account	63,221	62,884
Self Insurance Reserve	2,071,872	1,781,202
MEEG Bank Investment	14,813,531	14,096,666
ABSA Bank - 9119750092 - Waterfall Phase iv Call Account	-	12,212
Transkei United Diaries	35,635,721	-
ABSA Bank - 9260787407 - Nduli Nature Reserve	112,401	112,006
ABSA Bank - 9105768376 - Ngangelizwe Urban Renewal	4,082,980	5,236,766
ABSA Bank - 9148935255 - Umtata Consolidated Metro	2,527,131	2,778,618
ABSA Bank - 9057846202 - Unclaimed Life Assurance	2,104,889	2,014,240
Zimbane Heights	5,986,135	-
ABSA Target Save Account	224,878	168,962
ABSA Bank - 9260110876 - Maintenance Lease Charge	-	1,382,840
ABSA Bank - 9148935255 - Municipal Infrastructure Grant	28,333,465	1,902,332
ABSA Bank - 9061932576 - Maydene Beneficiary Top Ups	-	262



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
ABSA Bank - 9111059492 - Disaster Management	2,526,445	3,025,262
ABSA Bank - 9259916285 - DOE Electrification Project	7,171,396	17,296,090
ABSA Bank - 9118940521 - Finance Management Grant	200,282	976,168
ABSA Bank - 9260112315 - Fire Station Refurbishment	2,148,776	2,485,721
ABSA Bank - 9282955018 - DOT Taxi Rank	7,655,783	9,897,479
ABSA Bank - 9260118400 - Grant Administration Development	432,973	449,911
ABSA Bank - 9272373062 - Multipurpose Community Centre	1,789,265	4,383,410
ABSA Bank - 9264472169 - ISUP Maydene	5,859	5,607
MEEG Bank - 4052547579 - Zimbane Valley Housing Pro	-	11,044
ISUP Hilcrest	9,223,072	-
ABSA Bank - 9264255581 - ISUP Joe Slovo	6,443,654	18,004,007
ABSA Bank - 9264472915 - ISUP Ngangelizwe	3,443,387	13,802,642
ABSA Bank - 9264472541 - ISUP Phola Park	6,008,112	8,980,295
MEEG Bank - 9098250933 - Zimbane Valley Payment Plan	-	1,917
ABSA Bank - 9260111987 - IDP Projects	12,106	20,060
MEEG Bank - 4055913797 - Ilitha Housing Project	-	895
Investec Bank Investments	38,464,752	36,694,000
ABSA Bank - 9260111652 - Khuphukani Cluster Project	44,800	1,620,213
ABSA Bank - 9152551667 - KSD Asset Financing	465,184	461,981
ABSA Bank - 9260118662 - KSD Elections Road Maintenance	544,391	570,717
MEEG Bank - 4061496125 - KSD Intervention Grant	1,012,999	1,036,333
ABSA Bank - 9060987300 - Kuyasa Housing Project (2)	-	18,506
ABSA Bank - 9097169945 - Municipal Support Grant	54,326	151,875
ABSA Bank - 9090409506 - KSD Community Projects	21,642	22,977
ABSA Bank - 9103186342 - Mabeleni rural housing	-	235,816
ABSA Bank - 9103186342 - Xhugxwala Rural Housing	-	213,160
ABSA Bank - 9118441412 - Mqanduli Milling Project	3,871	3,844
ABSA Bank - 9153705564 - Municipal System Improvement	364,258	897,397
ABSA Bank - 9262471098 - Performance Management Systems	80,564	85,024
ABSA Bank - 9263297136 - Municipal Finance Assistance	35,840	162,052
ABSA Bank - 9116635326 - Ngqwala Rural Housing	-	365,869
ABSA Bank - 9102535607 - Qunu rural housing	-	510,283
Maydene Farm Extension	3,629,352	-
ABSA Bank - 9103185142 - Kuyasa Housing Project Fund	-	3,775
ABSA Bank - 9260110101 - Rural Planning & Survey	452,332	474,933
ABSA Bank - 9260111652 - Uphuhliso Lwethu	209,947	243,075
ABSA Bank - 9260110397 - Organogram Development	741,635	771,012
ABSA Bank - 9057562525 - Maydene Housing Project Fund	-	782,374
Library Grant	1,697,121	-
ABSA Bank - 9095799392 - Mqanduli Middle Income Housing	335,966	349,670
ABSA Bank - 9260109699 - Light the Pilot	238,586	255,257
	<b>216,895,290</b>	<b>180,205,668</b>
	216,895,290	180,205,668
	-	-
	-	-
Non-current assets	-	-
Current assets	216,895,290	180,205,668

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 8. Employee benefit obligations

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes - 571,935

The amount recognised as an expense for defined contribution plans is - 571,935

Included in defined contribution plan information above, is the following plan which is a Multi-Employer Funds and is a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan as a defined benefit plan. The municipality accounted for this (these) plan as a defined contribution plan:

### 9. Inventories

Consumable stores	2,434,459	1,642,730
Spare parts	664,340	1,234,253
	<b>3,098,799</b>	<b>2,876,983</b>

### 10. Receivables from exchange transactions

Trade debtors	182,264,066	135,828,293
Impairment for bad debts	(102,858,399)	(100,411,012)
Other debtors	324,144	328,366
Creditors with debit balances	197,003	16,984,099
	<b>82,374,201</b>	<b>52,729,746</b>

#### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R 11,899,277 (2012: R 12,824,356) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5,964,043	8,797,796
2 months past due	5,935,234	4,026,560

#### Trade and other receivables impaired

As of 30 June 2013, trade and other receivables of R 34,232,082 (2012: R 18,406,233) were impaired and provided for.

The amount of the provision was R (102,858,399) as of 30 June 2013 (2012: R (100,411,012)).

The ageing of these receivables is as follows:

3 to 6 months	34,523,739	14,796,369
Over 6 months	-	3,609,864



# King Sabata Dalindyebo Municipality

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### 10. Receivables from exchange transactions (continued)

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	100,411,012	98,249,296
Provision for impairment	2,447,387	2,161,716
	<b>102,858,399</b>	<b>100,411,012</b>

### 11. Receivables from non-exchange transactions

Property rates	125,339,971	103,135,398
Impairment allowance	(113,701,140)	(88,024,276)
Government grants and subsidies	-	12,502,594
	<b>11,638,831</b>	<b>27,613,716</b>

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R 34,320,540 (2012: R 18,904,871) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	4,437,094	2,747,133
2 months past due	4,415,661	2,403,093
3 months past due	25,467,785	13,754,645

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	88,024,276	81,001,795
Provision for impairment	25,676,864	7,022,481
	<b>113,701,140</b>	<b>88,024,276</b>

### 12. VAT receivable

VAT	14,806,746	5,565,993
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### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	12,340	12,340
Bank balances	21,280,631	39,116,697
	<b>21,292,971</b>	<b>39,129,037</b>

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Excess cash is invested with reputable financial institutions with good credit ratings.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
First National Bank - 62090323636	3,376,788	21,595,167	15,759,494	3,376,788	21,595,167	15,759,494
MEEG Bank - 4061496604	4,591,297	2,632,484	3,394,165	4,591,297	2,632,484	3,394,165
MEEG Bank - 4048218780	13,320,139	14,039,956	8,170,184	13,290,760	14,873,671	6,896,821
MEEG Bank - 4053806112	21,728	15,000	21,208	21,730	15,000	21,208
MEEG Bank - 408400474	-	376	1,991	-	376	1,991
<b>Total</b>	<b>21,309,952</b>	<b>38,282,983</b>	<b>27,347,042</b>	<b>21,280,575</b>	<b>39,116,698</b>	<b>26,073,679</b>

### 14. Revaluation reserve

Opening balance	132,725,884	63,030,728
Change during the year	(505,100)	69,695,156
	<b>132,220,784</b>	<b>132,725,884</b>

### 15. Finance lease obligation

#### Minimum lease payments due

- within one year	148,790	285,298
	148,790	285,298
less: future finance charges	-	(27,964)
<b>Present value of minimum lease payments</b>	<b>148,790</b>	<b>257,334</b>

#### Present value of minimum lease payments due

- within one year	148,790	257,298
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It is municipality policy to lease certain motor vehicles under finance leases.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Provincial: ISUP Maydene	5,840	5,607
Provincial: ISUP Joe Slovo	38,821,689	19,581,628
Provincial: ISUP Ngangelizwe	3,431,177	13,802,661
Provincial: ISUP Phola Park	5,987,292	8,980,296
Grant admin development	430,000	430,000
Community multi purpose centre - Ngangelizwe	1,915,690	32,258
Provincial: Uphiliso Lwethu	178,503	208,503
Provincial: MTAB Grant	2,509,715	2,509,715
National: Municipal Infrastructure Grant	28,640,809	74,677
National: Finance Management Grant	61,806	645,832
Provincial: Intervention Grant	1,008,672	1,008,672
Provincial: Municipal Systems Improvement Grant	35,915	-
Provincial: IDP	12,009	14,109
Provincial: Khuphukani Cluster Project	1	1,554,393
Provincial: Rural Planning & Survey	449,250	449,250
Provincial: Light the Pilot	236,947	236,947
KSD Elections - Road Maintenance	540,650	540,650
Nduli Nature reserve	-	-
Performance Management System	80,000	80,000
National: Municipal Finance Assistance Grant	34,967	161,989
National: Department of Housing	361,018	2,395,146
Maydene farm extension	3,617,202	-
Intergovernmental Grant - Equitable Share	-	21,527
Provincial: Urban Renewal Grant	3,461,947	3,446,279
Infrastructure Skills Development	1,500,000	-
Provincial: Organogram Development	736,539	736,539
Provincial: Department of Transport Taxi Rank	7,236,277	7,236,277
Provincial: Disaster Management Grant	2,307,890	2,857,061
Provincial: ISUP Hilcrest	8,547,059	-
Provincial: Fire Station Refurbishment	2,333,450	2,333,450
Provincial: Municipal Support Grant	53,893	143,584
Transkei United Diaries	3,175,317	-
Zimbane Heights	5,966,253	-
Department of Energy - Electrification Project	17,347,370	16,130,799
Transfer of grant with debit balances	-	12,502,594
Library grant	1,685,672	-
	<b>142,710,819</b>	<b>98,120,443</b>

#### Movement during the year

Balance at the beginning of the year	98,120,443	69,371,841
Additions during the year	331,040,973	159,838,651
Income recognition during the year	(286,450,597)	(131,090,049)
	<b>142,710,819</b>	<b>98,120,443</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 17. Other financial liabilities

#### At amortised cost

Annuity loans : DBSA

34,044,202 26,128,544

DBSA Loan 61001245 is redeemable in March 2018 and the borrowing rate is 8%.

DBSA Loan 61003135 is redeemable in December 2020 and the borrowing rate is based on the JIBAR rate.

DBSA Loan 61001048 is redeemable in 2026 and the borrowing rate is 6.75%.

Local Registered Stock Loans : PIC Loan

34,082,949 38,872,241

The PIC Loan is redeemable in December 2018 and the borrowing rate is 8%.

KSD cedes to PIC in securitatem debiti rights in the municipal building of the KSD situated at erf 9441, 47 to 49 Sutherland Street, Mthatha , measuring 8,309 square metres.

**68,127,151 65,000,785**

#### Total other financial liabilities

**68,127,151 65,000,785**

#### Non-current liabilities

At amortised cost

59,169,214 58,072,751

#### Current liabilities

At amortised cost

8,957,937 6,928,034



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 18. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	26,271,201	(2,978,398)	-	23,292,803
Legal proceedings	389,179,463	-	(389,179,463)	-
	<b>415,450,664</b>	<b>(2,978,398)</b>	<b>(389,179,463)</b>	<b>23,292,803</b>

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	21,756,668	4,514,533	26,271,201
Legal proceedings	-	389,179,463	389,179,463
	<b>21,756,668</b>	<b>393,693,996</b>	<b>415,450,664</b>
Non-current liabilities		23,292,803	26,271,201
Current liabilities		-	389,179,463
		<b>23,292,803</b>	<b>415,450,664</b>

#### Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites.

#### Legal proceedings provisions

A legal claim has been instituted against the Municipality for the unlawful usage of land on which a private contractor had commenced the building of property.

### 19. Payables from exchange transactions

Trade payables	38,694,538	32,168,895
Payments received in advanced - contract in process	3,335,134	5,331,505
Unclaimed group Life assurance	2,014,240	2,014,240
UIF Councillors	78,195	78,195
Accrued leave pay	16,016,677	16,371,977
Accrued expense	19,488,862	17,575,106
Accrued expense 4	250,047	-
Deposits received	652,850	519,701
Other payables	276,287	2,922,668
Insurance claims	471,139	1,051,689
Department of Water Affairs (Transfer of functions)	314,601	314,601
Unknown Deposits	8,806,084	1,306,095
National Revenue Fund - Funds to be surrendered	1,285,257	-
Workman's compensation	3,858,706	3,858,706
Retention	166,868	-
Debtors with credit balances	24,751,227	16,984,099
Other payable - Study loans	24,335	24,335
Legal claim - Landmark	256,275,887	-
	<b>376,760,934</b>	<b>100,521,812</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 20. Consumer deposits

Electricity	3,047,001	1,994,041
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### 21. Financial instruments disclosure

#### Categories of financial instruments

#### 2013

##### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	207,501,674	156,324	207,657,998
Trade and other receivables from exchange transactions	-	62,178,111	62,178,111
Other receivables from non-exchange transactions	-	27,487,985	27,487,985
Cash and cash equivalents	-	21,292,916	21,292,916
	<b>207,501,674</b>	<b>111,115,336</b>	<b>318,617,010</b>

##### Financial liabilities

	At amortised cost	Total
Other financial liabilities	81,350,825	81,350,825
Trade and other payables from exchange transactions	92,779,821	92,779,821
Other liability	2,652,706	2,652,706
	<b>176,783,352</b>	<b>176,783,352</b>

#### 2012

##### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	180,184,914	156,324	180,341,238
Trade and other receivables from exchange transactions	-	52,656,912	52,656,912
Other receivables from non-exchange transactions	-	27,832,446	27,832,446
Cash and cash equivalents	-	39,129,037	39,129,037
	<b>180,184,914</b>	<b>119,774,719</b>	<b>299,959,633</b>

##### Financial liabilities

	At amortised cost	Total
Other financial liabilities	58,072,751	58,072,751
Trade and other payables from exchange transactions	100,310,745	100,310,745
	<b>158,383,496</b>	<b>158,383,496</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>22. Revenue</b>		
Service charges	258,605,608	216,035,554
Rental of facilities and equipment	13,629,466	12,505,062
Licences and permits	11,438,155	11,011,360
Derecognition of loans and provisions	149,114,167	-
Other income	12,841,188	10,779,272
Interest received	30,378,515	30,619,334
Dividends received	3,754	12,282
Property rates	131,782,195	128,536,523
Government grants & subsidies	274,408,110	319,348,111
Public contributions and donations	851,200	20,000
Fines	2,063,415	1,606,678
	<b>885,115,773</b>	<b>730,474,176</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	258,605,608	216,035,554
Rental of facilities and equipment	13,629,466	12,505,062
Licences and permits	11,438,155	11,011,360
Derecognition of loans and provisions	149,114,167	-
Other income	12,841,188	10,779,272
Interest received	30,378,515	30,619,334
Dividends received	3,754	12,282
	<b>476,010,853</b>	<b>280,962,864</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

**Taxation revenue**

Property rates	131,782,195	128,536,523
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**Transfer revenue**

Government grants & subsidies	274,408,110	319,348,111
Public contributions and donations	851,200	20,000
Fines	2,063,415	1,606,678
	<b>409,104,920</b>	<b>449,511,312</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 23. Property rates

#### Rates received

Residential	31,450,953	32,821,285
Commercial	34,505,135	39,004,570
State	65,490,083	56,455,419
Municipal - parking	232,959	255,249
Agricultural	102,206	-
Public service infrastructure	859	-
	<b>131,782,195</b>	<b>128,536,523</b>

#### Valuations

Residential	3,238,251,500	3,849,652,307
Commercial	3,333,520,000	2,658,065,500
State	553,699,500	1,403,935,500
Municipal	727,871,500	493,389,500
Small holdings and farms	10,889,000	14,230,000
Open spaces	1,847,000	1,895,500
Places of public worship	68,724,500	67,624,500
Public Benefit Organisations	5,433,000	5,433,000
Vacant Land	337,405,500	282,265,002
Schools	433,574,000	414,756,500
	<b>8,711,215,500</b>	<b>9,191,247,309</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

### 24. Service charges

Sale of electricity	231,008,871	197,979,372
Refuse removal	27,596,737	18,056,182
	<b>258,605,608</b>	<b>216,035,554</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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<b>25. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	161,236,000	151,093,000
Disaster Management Grant	549,171	756,788
Khuphukani Cluster Project	-	30,371
Light the Pilot Media	-	264,414
Municipal Support Grant	89,691	-
Nduli Nature Reserve	-	104,740
IDP	2,100	837,970
Subsidy - SETA	1,313,968	639,721
Intergrated Rural Development Plan	-	2,000,000
Finance Management Assistance Grant	126,720	549,179
Subsidy - State	5,927,192	-
Financial Management Grant	2,084,026	2,299,395
Financial Management Grant	-	13,392,448
Municipal Systems Improvement Grant	764,085	-
Subsidy - Extended Public Works Programme	1,000,000	485,000
Library grant	28,328	-
Organogram Development Grant	-	4,200,000
	<b>173,121,281</b>	<b>176,653,026</b>
<b>Capital grants</b>		
Uphuhliso Lwethu	30,000	785,804
Municipal Infrastructure Grant	27,572,969	46,202,133
Fire Station Refurbishment	-	980,374
Public Transport Facilities	-	1,072,512
Stadium Grant	-	15,108,514
Ngangelizwe Urban Renewal Grant	4,984,332	11,267,398
Multipurpose Community hall	15,610,887	-
Housing and other grants	6,978,457	48,848,865
NER	19,274,669	18,429,485
ISUP grant	26,835,514	-
	<b>101,286,828</b>	<b>142,695,085</b>
	<b>274,408,109</b>	<b>319,348,111</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Provincial : ISUP Maydene

Balance unspent at beginning of year	5,607	-
Current-year receipts	-	5,400
Interest received	233	207
	<b>5,840</b>	<b>5,607</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: ISUP Joe Slovo

Balance unspent at beginning of year	19,581,628	-
Current-year receipts	32,371,721	43,796,842
Conditions met - transferred to revenue	(12,925,316)	(24,534,582)
Interest received	(206,344)	319,368
	<b>38,821,689</b>	<b>19,581,628</b>

Conditions still to be met - remain liabilities (see note 16).

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 25. Government grants and subsidies (continued)

#### Provincial: ISUP Ngangelizwe

Balance unspent at beginning of year	13,802,661	-
Current-year receipts	-	24,186,308
Conditions met - transferred to revenue	(10,128,904)	(10,562,108)
Interest received	(242,580)	178,461
	<b>3,431,177</b>	<b>13,802,661</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: ISUP Phola Park

Balance unspent at beginning of year	8,980,296	-
Current-year receipts	-	18,303,166
Conditions met - transferred to revenue	(2,878,890)	(9,401,024)
Interest received	(114,114)	78,154
	<b>5,987,292</b>	<b>8,980,296</b>

Conditions still to be met - remain liabilities (see note 16).

#### National : Grant Administration

Balance unspent at beginning of year	430,000	430,000
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Conditions still to be met - remain liabilities (see note 16).

#### DOHS: Community Multipurpose Centre - Ngangelizwe

Balance unspent at beginning of year	32,258	-
Current-year receipts	17,401,608	4,351,152
Conditions met - transferred to revenue	(15,610,887)	(4,351,152)
Interest	92,711	32,258
	<b>1,915,690</b>	<b>32,258</b>

Conditions still to be met - remain liabilities (see note 16).

#### Uphuhliso Lwethu

Balance unspent at beginning of year	208,503	994,307
Conditions met - transferred to revenue	(30,000)	(785,804)
	<b>178,503</b>	<b>208,503</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: MTAB Grant

Balance unspent at beginning of year	2,509,715	2,509,715
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Conditions still to be met - remain liabilities (see note 16).



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

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### 25. Government grants and subsidies (continued)

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	74,677	(2,190)
Current-year receipts	56,139,000	46,279,000
Conditions met - transferred to revenue	(27,572,868)	(46,202,133)
	<b>28,640,809</b>	<b>74,677</b>

Conditions still to be met - remain liabilities (see note 16).

#### National: Financial Management Grant

Balance unspent at beginning of year	645,832	1,495,227
Current-year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(2,084,026)	(2,299,395)
	<b>61,806</b>	<b>645,832</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: Intervention Grant

Balance unspent at beginning of year	1,008,672	1,008,672
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Conditions still to be met - remain liabilities (see note 16).

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	47,970
Current-year receipts	800,000	790,000
Conditions met - transferred to revenue	(764,085)	(837,970)
	<b>35,915</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: Mthatha Stadium

Balance unspent at beginning of year	(1,292,231)	17,300,977
Current-year receipts	-	3,117,120
Conditions met - transferred to revenue	1,292,231	(22,208,514)
Interest received	-	498,186
	<b>-</b>	<b>(1,292,231)</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: Intergrated Development Plan

Balance unspent at beginning of year	14,109	14,109
Conditions met - transferred to revenue	(2,100)	-
	<b>12,009</b>	<b>14,109</b>

Conditions still to be met - remain liabilities (see note 16).

#### Provincial: Khuphukani Cluster Project

Balance unspent at beginning of year	1,554,393	1,584,763
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(1,554,393)	(30,370)
	<u>-</u>	<u>1,554,393</u>
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Provincial: Rural planning &amp; survey</b>		
Balance unspent at beginning of year	449,250	449,250
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Light the Pilot Media</b>		
Balance unspent at beginning of year	236,947	501,360
Conditions met - transferred to revenue	-	(264,413)
	<u>236,947</u>	<u>236,947</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: KSD Elections - Road Maintenance</b>		
Balance unspent at beginning of year	540,650	-
Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	-	(1,459,350)
	<u>540,650</u>	<u>540,650</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Nduli Nature Reserve</b>		
Balance unspent at beginning of year	-	104,740
Conditions met - transferred to revenue	-	(104,740)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Performance Management System</b>		
Balance unspent at beginning of year	80,000	80,000
Conditions still to be met - remain liabilities (see note 16).		
<b>National: Municipal Finance Assistance Grant</b>		
Balance unspent at beginning of year	161,989	711,168
Conditions met - transferred to revenue	(127,022)	(549,179)
	<u>34,967</u>	<u>161,989</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Department of Housing and Local Government Grant</b>		
Balance unspent at beginning of year	2,395,146	2,539,270



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	-	(144,124)
Interest received	(2,034,128)	-
	<b>361,018</b>	<b>2,395,146</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Maydene Farm Extension</b>		
Current-year receipts	6,183,987	-
Conditions met - transferred to revenue	(2,627,146)	-
Interest	60,361	-
	<b>3,617,202</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>National: Inter Governmental Grant</b>		
Balance unspent at beginning of year	21,527	21,527
Conditions met - transferred to revenue	(21,527)	-
	<b>-</b>	<b>21,527</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Urban Renewal Grant</b>		
Balance unspent at beginning of year	3,446,279	14,713,677
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(4,984,332)	(11,267,398)
	<b>3,461,947</b>	<b>3,446,279</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Infrastructure Skills Development</b>		
Current-year receipts	1,500,000	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Maintenance lease charge</b>		
Balance unspent at beginning of year	-	4,200,000
Conditions met - transferred to revenue	-	(4,200,000)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Organogram Development</b>		
Balance unspent at beginning of year	736,539	736,539
Conditions still to be met - remain liabilities (see note 16).		
<b>Department of Transport: Taxi Rank</b>		
Balance unspent at beginning of year	7,236,277	8,308,789

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	-	(1,072,512)
	<b>7,236,277</b>	<b>7,236,277</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Disaster Management Grant</b>		
Balance unspent at beginning of year	2,857,061	3,611,599
Current-year receipts	-	2,250
Conditions met - transferred to revenue	(549,171)	(756,788)
	<b>2,307,890</b>	<b>2,857,061</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>ISUP Hillcrest</b>		
Current-year receipts	9,103,767	-
Conditions met - transferred to revenue	(645,790)	-
Interest	89,082	-
	<b>8,547,059</b>	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Fire Station Refurbishment</b>		
Balance unspent at beginning of year	2,333,450	3,313,824
Conditions met - transferred to revenue	-	(980,374)
	<b>2,333,450</b>	<b>2,333,450</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Municipal Support Grant</b>		
Balance unspent at beginning of year	143,584	143,584
Conditions met - transferred to revenue	(89,691)	-
	<b>53,893</b>	<b>143,584</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Transkei Diaries</b>		
Current-year receipts	5,383,638	-
Conditions met - transferred to revenue	(2,296,461)	-
Other	88,140	-
	<b>3,175,317</b>	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Zimbane Heights</b>		
Current-year receipts	7,919,530	-
Conditions met - transferred to revenue	(2,054,850)	-
Interest	101,573	-
	<b>5,966,253</b>	-



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 25. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

#### National: Department of Energy - Electrification Project

Balance unspent at beginning of year	16,130,799	17,160,284
Current-year receipts	23,420,000	17,400,000
Conditions met - transferred to revenue	(22,203,429)	(18,429,485)
	<b>17,347,370</b>	<b>16,130,799</b>

Conditions still to be met - remain liabilities (see note 16).

#### Rural Transport plan

Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	-	(2,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act ... of 2013), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 26. Public contributions and donations

Public contributions and donations	851,200	20,000
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### 27. Other income

Building plan approvals	848,975	1,025,069
Call out revenue	7,956	22,059
Disconnection fees	486,665	315,574
Fire Brigade fees	4,324,015	2,669,957
Insurance claims	238,539	374,789
Meter testing	965,568	986,169
Connection fees - Electricity	2,730,464	1,807,527
Other income	464,881	683,573
Pound fees	16,429	17,606
Vehicle examination fees	1,711,637	1,984,242
Tender fees	223,800	316,629
Recoveries	822,259	576,078
	<b>12,841,188</b>	<b>10,779,272</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

	2013	2012
<b>28. General expenses</b>		
Advertising	318,276	252,149
Auditors remuneration	6,414,323	4,215,942
Bank charges	1,121,109	1,166,420
Cleaning	1,938,569	2,071,839
Commission paid	2,039,221	1,852,402
Consulting and professional fees	12,236,488	14,319,516
Consumables	2,234,046	2,532,716
Discount allowed	-	945,806
Entertainment	860,318	1,103,705
Insurance	4,119,813	3,174,238
Community development and training	1,129,390	1,105,636
Conferences and seminars	2,733,100	2,323,283
Lease rentals on operating lease	34,667,423	29,588,805
Promotions and sponsorships	2,009,124	188,872
Levies	2,065,286	516,891
Magazines, books and periodicals	176,119	53,299
Municipal service charges	3,292,246	13,775,786
Motor vehicle expenses	147,155	98,343
Fuel and oil	5,186,795	2,555,002
Printing and stationery	1,958,199	1,916,791
Project maintenance costs	375,799	1,084,537
Rehabilitation of tip sites	1,972,434	4,995,696
Royalties and license fees	1,848,010	1,764,274
Staff welfare	374,333	215,633
Subscriptions and membership fees	1,800	1,800
Telephone and fax	5,804,022	4,702,471
Training	3,423,015	3,237,421
Subsistence and travel	3,818,130	3,338,932
Uniforms	314,821	890,955
Tourism development	486,074	-
Materials and stores	1,098,036	917,580
Valuation expenses	200,404	27,186
Solid waste management	624,596	-
Legal claim - landmark	-	389,179,463
Erven Cleaning fees	2,619,377	1,308,988
Customer care centre	-	381,083
Other expenses	3,757,937	2,277,759
	<b>111,365,788</b>	<b>498,081,219</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 29. Employee related costs

Basic	136,981,213	127,801,832
Bonus	9,544,126	9,404,326
Medical aid - company contributions	16,505,716	16,735,593
UIF	1,416,903	1,181,727
WCA	4,230,094	1,272,395
SDL	2,624,262	2,707,472
Leave pay provision charge	1,204,693	516,295
Other short term costs	3,196,315	-
Post-employment benefits - Pension - Defined contribution plan	18,208,774	18,421,587
Travel, motor car, accommodation, subsistence and other allowances	9,517,935	9,201,105
Overtime payments	10,866,127	11,280,129
Long-service awards	4,050,425	4,059,763
Acting allowances	8,673,294	6,634,439
Housing benefits and allowances	12,565,004	12,817,222
Termination benefits	4,431,363	4,924,876
	<b>244,016,244</b>	<b>226,958,761</b>

### Remuneration of municipal manager

Annual Remuneration	857,630	385,027
Car Allowance	382,683	52,702
Contributions to UIF, Medical and Pension Funds	50,593	8,816
Service bonus	68,775	-
	<b>1,359,681</b>	<b>446,545</b>

### Remuneration of chief finance officer

Annual Remuneration	623,224	50,583
Travel, motor car, accommodation, subsistence and other allowances	306,443	20,720
Contributions to UIF, Medical and Pension Funds	43,713	4,349
	<b>973,380</b>	<b>75,652</b>

### Remuneration of Director : Community Services

Annual Remuneration	826,644	728,438
Travel, motor car, accommodation, subsistence and other allowances	97,860	90,826
Contributions to UIF, Medical and Pension Funds	1,713	9,621
	<b>926,217</b>	<b>828,885</b>

### Remuneration of Director : Corporate services

Annual Remuneration	566,667	188,888
Travel, motor car, accommodation, subsistence and other allowances	40,884	7,073
Contributions to UIF, Medical and Pension Funds	1,118	2,322
	<b>608,669</b>	<b>198,283</b>

### Remuneration of director : Public Safety

Annual Remuneration	676,351	593,659
Travel, motor car, accommodation, subsistence and other allowances	172,467	406,797
Contributions to UIF, Medical and Pension Funds	1,713	11,258
	<b>850,531</b>	<b>1,011,714</b>

### Remuneration of director : Human Settlements

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 29. Employee related costs (continued)

Annual Remuneration	842,238	177,750
Travel, motor car, accommodation, subsistence and other allowances	69,630	11,378
Contributions to UIF, Medical and Pension Funds	1,713	2,243
	<b>913,581</b>	<b>191,371</b>

#### Remuneration of director : Urban Renewal

Annual Remuneration	817,183	766,735
Travel, motor car, accommodation, subsistence and other allowances	14,528	9,600
Contributions to UIF, Medical and Pension Funds	1,713	8,878
	<b>833,424</b>	<b>785,213</b>

#### Remuneration of Director: Local Economic Development

Annual Remuneration	826,644	729,438
Travel, motor car, accommodation, subsistence and other allowances	17,962	9,600
Contributions to UIF, Medical and Pension Funds	1,713	8,878
	<b>846,319</b>	<b>747,916</b>

### 30. Remuneration of councillors

Executive Major	710,355	673,630
Chief Whip	535,798	430,166
Mayoral Committee Members	4,454,794	3,966,530
Speaker	564,838	544,100
Councillors	12,769,945	11,906,674
	<b>19,035,730</b>	<b>17,521,100</b>

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has the use of separate Council owned vehicles for official duties.

The position of Chief Whip was made permanent in the current year.

### 31. Administrative expenditure

Administration and management fees - third party	1,165,958	3,181,021
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### 32. Debt impairment

Impairment of debtors	25,676,864	22,131,930
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

	2013	2012
<b>33. Investment revenue</b>		
<b>Dividend revenue</b>		
Listed financial assets - Local	3,754	12,282
<b>Interest revenue</b>		
Bank	9,552,886	8,190,331
Interest charged on trade and other receivables	20,825,629	22,429,003
	<b>30,378,515</b>	<b>30,619,334</b>
	3,754	12,282
	<b>30,378,515</b>	<b>30,619,334</b>
	<b>30,382,269</b>	<b>30,631,616</b>
<b>34. Fair value adjustments</b>		
Investment property (Fair value model)	21,827,397	16,377,953
<b>35. Depreciation and amortisation</b>		
Property, plant and equipment and intangible assets	97,076,951	88,212,555
<b>36. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment and intangible assets	-	91,671,608
	-	91,671,608
	-	-
<b>37. Finance costs</b>		
Trade and other payables	7,567	288,804
Bank	-	685,955
Current borrowings	5,623,688	5,092,828
	<b>5,631,255</b>	<b>6,067,587</b>
<b>38. Auditors' remuneration</b>		
Fees	6,414,323	4,215,942
<b>39. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	4,692,556	3,906,825
<b>Facilities and equipment</b>		
Rental of facilities	512,026	563,968
Rental of equipment	8,424,884	8,034,269
	<b>8,936,910</b>	<b>8,598,237</b>
Premises	4,692,556	3,906,825
Garages and parking	-	-
Facilities and equipment	8,936,910	8,598,237
	<b>13,629,466</b>	<b>12,505,062</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>40. Contracted services</b>		
Specialist Services	17,141,836	17,277,545
<b>41. Grants and subsidies paid</b>		
<b>Grants paid to ME's</b>		
Disaster Management Grant	(42,000)	762,188
Financial Management Grant	1,999,146	2,299,615
Municipal Support Programme	85,975	-
Organogram Development Grant	-	3,831
Khuphukani Cluster Project	-	26,676
Light the Pilot Media	-	233,098
Community Participation	1,062,814	863,011
Public Expense - Elderly, Children, Disabled, Gender equality, Youth and Sport	2,262,915	1,190,385
Council Ward Committee Meeting Incentives	4,442,648	2,093,671
Study Bursaries	239,734	114,863
Intergrated Rural Development Plan	-	1,754,386
Municipal Systems Improvement Grant	728,107	1,243,784
Municipal Community Partnership	-	7,177
Municipal Finance Assistance	126,720	538,920
Nduli Nature reserve	-	118,189
SETA	705,713	714,058
Uphuhliso Lwethu	30,000	695,716
Fire Station	-	839,811
Free Basic Electricity	-	3,359,592
Indigent Subsidy	7,834,183	7,377,905
KSD Contribution - Traditional Leaders	347,146	(1,101,643)
Library Grant	27,164	-
KSD Contribution - Web Based Budgeting	3,352,182	3,064,469
IDP Grant Fund	-	(1,482)
Department of Local Government	560,648	-
Group co ID 28	7,319	-
Expanded Public Works Programme	890,323	-
Electricity Demand site management	3,156,340	-
	<b>27,817,077</b>	<b>26,198,220</b>
Grants paid to ME's	27,817,077	26,198,220
Other subsidies	-	-
<b>42. Bulk purchases</b>		
Electricity	162,453,730	145,821,943



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>43. Cash generated from operations</b>		
Surplus (deficit)	155,452,822	(420,042,024)
<b>Adjustments for:</b>		
Depreciation and amortisation	97,076,951	88,212,555
Gain on sale of assets and liabilities	4,218,976	505,518
Fair value adjustments	(21,827,397)	(16,377,953)
Impairment deficit	-	91,671,608
Debt impairment	25,676,864	22,131,930
Movements in provisions	(392,157,861)	393,693,996
<b>Changes in working capital:</b>		
Inventories	(221,816)	(2,518,726)
Receivables from exchange transactions	(29,644,455)	84,375,455
Other receivables from non-exchange transactions	15,974,885	(94,190,333)
Debt impairment	(25,676,864)	(22,131,930)
Payables from exchange transactions	276,239,122	11,728,177
VAT	(9,240,753)	13,131,943
Unspent conditional grants and receipts	44,590,376	15,680,632
Consumer deposits	1,052,960	375,040
	<b>141,513,810</b>	<b>166,245,888</b>
<b>44. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for and approved</b>		
• Property, plant and equipment	144,636,850	94,079,743
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	41,868,340	60,787,400

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>45. Contingencies</b>		
<b>Pending litigations and claims</b>		
Claim for professional services rendered, Stadium, infrastructure services and roads adjacent to Stadium site.	-	300,000
Claim against unfair dismissal	-	100,000
Claim for unlawful arrest, detention, contumelia,pain, suffering and emotional shock.	-	50,000
Claim for unlawful arrest, detention, contumelia,pain, suffering and emotional shock.	-	10,000
Claim for unlawful arrest, detention, contumelia,pain, suffering and emotional shock.	-	10,000
Claim shortage of Salary on Gr 3 from Sept 2009	-	30,000
Claim fees on VAT audit conducted	-	100,000
Claim fees on VAT audit conducted	-	100,000
Claim damages against municipality as a result of disconnection of electricity	-	100,000
Attorney put in interdict for restoring of electricity.	-	140,000
Claims to conduct and complete the development in terms of the lease agreement on a land	-	400,000,000
A fraud case arising out of a claim by two service providers who both claim to have performed the same work	-	200,000
Ncediswa sues in her personal capacity and as a mother and natural guardian of P. Tshuta, a 11 year old girl	-	1,700,000
Ncediswa sues in her personal capacity and as a mother and natural guardian of P. Tshuta, a 11 year old girl	-	7,400,000
Claim for damages. Assault arrest & unlawful detention	-	100,000
Eviction of Municipal Employees at Mamela Taxi Rank	-	100,000
Over Time claim	-	100,000
Claim for alleged damages for not complying with court order dated 08 February 2006	-	200,000
Claim for services rendered (Alleged inflated prices)	-	600,000
Electricity disconnection and dispute against the rates	1,358,000	600,000
Fraud case arising out of a claim by two service providers who both claim to have performed the same work	-	150,000
Dispute against the unpaid amount for services rendered- Construction of Vehicle Testing Centre	-	35,000
Incorrect allocation of House	-	23,000
Unlawful confiscation of Driver's License by Traffic officers	-	85,000
Claim for damages, assault by municipal law enforcement officers	-	70,000
Advocate involved in this matter, not a case	-	150,000
Claim for damages, as electricity pole that fell on applicants vehicle as a result from accident	-	50,000
Claim for damages, electricity pole that fell on applicants vehicle as a result from accident	-	50,000
Claim for assault by law enforcement officer to Motorist	-	70,000
Claim for damages incurred along the N2 National Road due to the loose crash stone that caused the car to capsize	-	73,000
Claim for negligence	-	1,110,000
South African Revenue Service	-	3,526,693
Employment retention dispute	1,250,000	-
Claims for damages against Municipality	8,424,199	-
Claims against KSD employees for assault.	70,000	-
Claims for unlawful trading	135,000	-
Claim for illegal impounding of Motor Vehicle by Traffic officers.	55,500	-
Other claims	660,000	-
	<b>11,952,699</b>	<b>417,332,693</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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Figures in Rand	2013	2012
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### 46. Related parties

#### Relationships

Accounting Officer  
Members of key management

Refer to accounting officer's report note  
Z.Z Mngqanqeni Municipal Manager  
R.B Mngokoyi - Director: PSED  
L.P Maka Director: Community Service  
N Ntshanga - Chief Financial Officer  
Z.H Ngovela - Director: Technical Services  
A Mdeleleni - Acting Director: Corporate Services  
J. Yala - Director: Public Safety  
N Soldati - Director Human Settlements

Refer to note 29 for the disclosure of the remuneration of Key Management (s56 Managers).

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

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### 46. Related parties (continued)

The Councillors of the Municipality are as follows:

Cllr N Ngqongwa  
Cllr LS Nduku (Infrastructure)  
Cllr LN Ntlonze (Corporate Services)  
Cllr MS Mlandu (Public Safety and Transport)  
Cllr FRS Ngcobo (Budget and Treasury)  
Cllr M Mtirara (Disaster Management)  
Cllr LR Madyibi (Community Services)  
Cllr AZ Luyenge  
Cllr N Gcingca  
Cllr KK Mdikane  
Cllr N Nyangani  
Cllr B Mazini  
Cllr B Momoza  
Cllr B Ndllobongela  
Cllr BD Bara  
Cllr DM Zozo (Chief Whip)  
Cllr EM Fileyo  
Cllr ET Mapekula  
Cllr FM Mtwā  
Cllr FV Dondashe (Speaker)  
Cllr GN Nelani  
Cllr HN Maroloma  
Cllr J Dlamini  
Cllr KN Kwetana  
Cllr KW Tsipa  
Cllr LA Tshiseka  
Cllr LL Mkhonto  
Cllr LM Luwaca  
Cllr M Bunzana  
Cllr M Gogo  
Cllr M Jafta  
Cllr M Mavukwana  
Cllr M Menzelwa  
Cllr M Ngabayena  
Cllr M Nyoka  
Cllr M Plam  
Cllr MA Zimela  
Cllr MH Mtirara  
Cllr MI Xentsa  
Cllr MJ Msakeni  
Cllr N Mpemnyama  
Cllr N Mtwā

Councilor remuneration is disclosed in note 30

The following councilors held membership/directorship in entities that traded with municipality.

Cllr MH Mtirara - Crossbar Agencies  
Cllr N Mtwā - OR Tambo Farmers  
Oliver Vella Gwadiso - Take Note Trading



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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Figures in Rand	2013	2012
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### 46. Related parties (continued)

#### Related party transactions

##### Purchases from (sales to) related parties

Take Note Tading	149,265	-
O R Tambo Farmers	2,300	-
Crossbar Agencies	16,750	-

### 47. Prior period errors

#### Property, Plant and Equipment

Prior period errors relating to Property, Plant and Equipment for the year ending 30 June 2012 were corrected. The errors pertained to the following:

- Land not previously recognised
- Incorrect valuation of electricity assets
- Incorrect depreciation of movable assets
- Incorrect allocation of assets

#### Trade and other payables

Prior period errors relating to trade and other payables for the year ending 30 June 2012 were corrected. The errors pertained to the retention fees payable not correctly accounted for.

#### Trade and other receivables

Prior period errors relating to trade and other receivables for the year ending 30 June 2012 were corrected. The errors pertained to an overstatement in the debtors balance.

The correction of the errors results in adjustments as follows:

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>47. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
<b>Revaluation surplus</b>		
Balance as previously reported	-	130,483,359
Adjustment to revaluation surplus	-	(2,242,525)
		<u><b>132,725,884</b></u>
<b>Accumulated Surplus</b>		
Balance as previously reported	-	1,492,054,382
Vacant land adjustments	-	136,000
Infrastructure impairments	-	(6,746,061)
Depreciation movement	-	3,598,307
Correction of Interest on Investment	-	(1,582,216)
Correction of electricity revenue	-	(324,865)
Legal Fees for Landmark	-	(389,179,463)
Impairments of sundry debtors	-	(334,319)
		<u><b>1,097,621,765</b></u>
<b>Unspent conditional grants</b>		
Balance as previously reported	-	(81,466,932)
Increase in unspent conditional grant	-	(16,653,511)
		<u><b>(98,120,443)</b></u>
	-	-
<b>Trade and other receivables from exchange transactions</b>		
Balance as previously reported	-	68,043,168
Movement in trade and other receivables	-	(15,313,422)
		<u><b>52,729,746</b></u>
	-	-
<b>Trade and other payables</b>		
Balance as previously reported	-	(100,225,960)
Correction of accrual incorrectly posted against accumulated surplus	-	(295,852)
		<u><b>(100,521,812)</b></u>
<b>Accumulated surplus</b>		
	<b>2012</b>	<b>2011</b>
Balance as previously reported	(1,492,054,382)	(1,519,899,852)
Land not previously recognised	(17,654,776)	(17,654,776)
	92,500	92,500
Profit on disposal of motor vehicles	(327,759)	-
Correction of depreciation charge	(295)	-
Profit on disposal of other assets	(503)	-
Correction of accrual incorrectly posted against accumulated surplus	13,253,082	-
	268,621	-
	(62,500)	-
Interest earned on the 2010 grant surrendered to donor , incorrectly recognised as interest income.	1,292,231	-
Disposal of intangible assets no longer in use.	(220,726)	-
Legal claims - landmark not previously recognised	389,179,463	-
	<u><b>(1,106,235,044)</b></u>	<u><b>(1,537,462,128)</b></u>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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<b>47. Prior period errors (continued)</b>		
<b>Statement of Financial Performance</b>		
<b>Depreciation expense</b>		
Balance as previously reported	-	88,751,381
<b>Service Charges</b>		
Balance as previously reported	-	213,180,169
<b>Government grants and subsidies</b>		
Balance as previously reported	-	320,952,259
<b>Loss on disposal of assets and liabilities</b>		
Balance as previously reported	-	-
Loss on disposal of property, plant and equipment	-	177,256
	-	<b>177,256</b>

### 48. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

**Property rates were disclosed under trade receivables in 2011/2012, they have not been separately disclosed with other receivables from non exchange transactions.**

Trade and other receivables from exchange transactions	-	(14,768,113)
Other receivables from non exchange transactions	-	14,768,113

**Short term investments were disclosed as cash and cash equivalents in 2011/2012, these have been reclassified to investments in line with the requirements of GRAP 2.**

Cash and cash equivalents	-	(180,184,913)
Investments	-	180,184,913

**Prepayments were disclosed with receivables from non exchange transactions in the prior year and have been separately presented in the statement of financial position**

#### Statement of Financial Performance

**Donations received were disclosed with other income in 2011/2012, these have been disclosed separately under revenue from non exchange transactions.**

Public contribution and donations	-	20,000
Other income	-	(20,000)

**Leave pay expense was disclosed with general expenses in 2011/2012, it has been disclosed as part of personnel expenditure.**

General expenses	-	(516,295)
Personnel expenditure	-	516,295

**Management fees were disclosed with general expenses in 2011/2012, these have been separately disclosed in the statement of financial performance.**

General expenses	-	(3,181,021)
Management fees	-	3,181,021

### 49. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

# King Sabata Dalindyebo Municipality

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### 49. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2013	2012
Cash and cash equivalents	21,292,916	39,129,037
Investments	207,501,674	180,184,914
Trade and other receivables from exchange transactions	62,178,111	52,656,912
Trade and other receivables from exchange transactions	27,487,985	27,832,446

### 50. Events after the reporting date

The municipality is not aware of any events after 30 June 2013 that may have an impact on the financial statements or require disclosure:

### 51. Unauthorised expenditure

Opening balance	96,913,249	1,477,478
Unauthorised expenditure	1,111,073,407	96,913,249
Less amounts condoned	-	(1,477,478)
	<b>1,207,986,656</b>	<b>96,913,249</b>

### 52. Fruitless and wasteful expenditure

Opening balance	869,904	1,231,142
Fruitless and wasteful expenditure - current year	205,781	869,904
Less amounts condoned	-	(1,231,142)
	<b>1,075,685</b>	<b>869,904</b>

### 53. Irregular expenditure

Opening balance	61,768,221	59,657,806
Add: Irregular Expenditure - current year	93,112,428	61,768,221
Less: Amounts written off by council	-	(59,657,806)
	<b>154,880,649</b>	<b>61,768,221</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>53. Irregular expenditure (continued)</b>		
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	93,110,741	61,768,221
Prior years	61,768,221	-
	<b>154,878,962</b>	<b>61,768,221</b>
<b>Details of irregular expenditure – current year</b>		
No bid adjudication and specification meetings for contracts awarded.		52,733,431
No contracts available for provision of goods and services		16,682,898
Non compliance with supply chain management regulations		23,694,412
		<b>93,110,741</b>
<b>54. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	475,664	-
Current year subscription / fee	-	1,696,824
Amount paid - current year	-	(1,221,160)
	<b>475,664</b>	<b>475,664</b>
<b>Material losses</b>		
During the 2012/13 financial year the Municipality incurred distribution losses relating to electricity of 14% (2012 - 11.49%)		
<b>Audit fees</b>		
Opening balance	1,132,009	344,697
Current year subscription / fee	6,414,324	6,290,655
Amount paid - current year	(8,665,920)	(5,506,583)
Interest	-	3,240
	<b>(1,119,587)</b>	<b>1,132,009</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	29,697,367	31,952,938
Amount paid - current year	(29,697,367)	(31,952,938)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	65,940,679	55,656,770
Amount paid - current year	-	(55,656,770)
	<b>65,940,679</b>	-
<b>VAT</b>		
VAT receivable	14,806,746	5,565,993

All VAT returns have been submitted by the due date throughout the year.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 54. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Gwadiso VO	439	16,321	16,760
Councillor Francis RS	290	10,883	11,173
Councillor Sharp	399	16,418	16,817
Councillor Raymond	1,002	612	1,614
Councillor Mlandu SN	1,415	23,488	24,903
Councillor Mtirara MIR	365	13,321	13,686
Councillor Mtwa FN	836	15,849	16,685
Councillor Ngcobo L	6,880	55,001	61,881
Councillor Ngcobo FRS	6,408	45,416	51,824
Councillor Ngqongwa N	209	6,983	7,192
Councillor Thandiwe	3,703	45,530	49,233
	<b>21,946</b>	<b>249,822</b>	<b>271,768</b>

#### 30 June 2012

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Gwadiso V O	357	15,334	15,691
Councillor Knock R	2,583	12,543	15,126
Councillor Mlamli S	175	7,908	8,083
Councillor Mlandu S.N	1,024	19,633	20,657
Councillor Mtirara M.T	283	12,303	12,586
Councillor Mtwa F.N	587	13,629	14,216
Councillor Nduku L.S	272	13,634	13,906
Councillor Nelani G.N	2,889	49,313	52,202
Councillor Ngcobo F.R.S	10,665	24,484	35,149
Councillor Ngqongwa N	-	169	169
	<b>18,835</b>	<b>168,950</b>	<b>187,785</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.