



King Sabata Dalindyebo Municipality  
Financial statements  
for the year ended 30 June 2016

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## 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).

### Mayoral committee

Executive Mayor

Cllr N Ngqongwa

Speaker

Cllr D M Zozo

Chief Whip

Cllr Z M Gusana

Members of the Mayoral Committee

Cllr N R Gcingca

Cllr L R Madyibi

Cllr M S Mlandu

Cllr F R S Ngcobo

Cllr L N Ntlonze

Cllr N A Ndlela

Cllr F M Mtwana

Cllr G N Nelani

Cllr T M Mtirara

### Councillors

Cllr M H Mtirara

Cllr M Mtirara

Cllr N C Jijana

Cllr N Nyangeni

Cllr V N Xhobani

Cllr K N Kwetana

Cllr T E Mapekula

Cllr N M Luqhide

Cllr S Budu

Cllr M Menzelwa

Cllr B Momoza

Cllr V N Roji

Cllr T Nomvete

Cllr M Ngabayena

Cllr M H Mtirara

Cllr M Jafta

Cllr B Mazini

Cllr V O Gwadiso

Cllr M Mavukwana

Cllr H N Maroloma

Cllr X T Matiti

Cllr M J Msakeni

Cllr E M Fileyo

Cllr N Mpemnyama

Cllr T Nqadolo

Cllr S S Njemla

Cllr M A Zimela

Cllr M I Xentsa

Cllr N S Kwaza

Cllr S Mlamli

Cllr N Sikonkotela

Cllr S Nyengane

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## General Information

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Cllr F V Dondashe  
Cllr Z V Maqabuka  
Cllr Z Magazi  
Cllr P P Nontshiza  
Cllr B D Bara  
Cllr R Knock  
Cllr J Dlamini  
Cllr M Plam  
Cllr W V Sanda  
Cllr N F Mzimane  
Cllr L M Luwaca  
Cllr V Dangala  
Cllr B Ndlobongela  
Cllr M Gogo  
Cllr N Mtwana  
Cllr K W Tsipa  
Cllr Z N Mncunza  
Cllr N Qwase  
Cllr L A Tshiseka  
Cllr N Pali  
Cllr M Bunzana  
Cllr A Z Luyenge  
Cllr K K Mdikane  
Cllr S S N Meyi  
Cllr Z Mjanyelwa  
Cllr L L Mkhonto  
Cllr Z P Mzamane  
Cllr N Nyangani  
Cllr M Nyoka

**Grading of local authority**

Grade 4

**Chief Finance Officer**

Mr E Jiholo

**Accounting Officer**

Mr M Zenzile

**Registered office**

Munitata Building  
Sutherland Street  
Mthatha

**Postal address**

Private Bag X5083  
Mthatha  
5099

**Bankers**

ABSA  
FNB

**Auditors**

Auditor General of South Africa

**Chairperson of the Audit Committee**

Prof. T M Jordan

**Members of the Audit Committee**

Adv. P V Msiwa  
Mr S E Madyaka

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

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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)
UIF	Unemployment Insurance Fund
WCA	Workmen's Compensation Act

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## 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 2017 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.

The auditor general is responsible for independently reviewing and reporting on the municipality's financial statements.

The financial statements set out on pages 5 to 84, which have been prepared on the going concern basis, were approved on 31 August 2016 by the accounting officer.

  
Mr M Zenzile  
Accounting Officer

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	9 051 870	6 718 666
Receivables from exchange transactions	4	31 031 851	27 741 258
Receivables from non-exchange transactions	5	16 251 578	12 478 175
VAT receivable	6	12 041 737	-
Cash and cash equivalents	7	12 501 813	40 186 754
		<b>80 878 849</b>	<b>87 124 853</b>
<b>Non-Current Assets</b>			
Investment property	8	228 859 454	205 205 355
Property, plant and equipment	9	2 327 708 883	2 180 277 548
Intangible assets	10	1 317 251	1 694 387
Heritage assets	11	4 697 000	4 697 000
		<b>2 562 582 588</b>	<b>2 391 874 290</b>
		<b>2 643 461 437</b>	<b>2 478 999 143</b>
<b>Total Assets</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	12	9 228 269	9 255 764
Finance lease obligation	13	843 746	10 704 766
Payables from exchange transactions	14	260 033 236	224 488 996
VAT payable	6	-	8 487 640
Consumer deposits	15	15 718 570	12 756 530
Unspent conditional grants and receipts	16	22 746 892	22 461 136
		<b>308 570 713</b>	<b>288 154 832</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	12	31 962 542	41 757 159
Finance lease obligation	13	435 514	4 909 531
Provisions	17	37 228 566	38 936 390
		<b>69 626 622</b>	<b>85 603 080</b>
		<b>378 197 335</b>	<b>373 757 912</b>
<b>Total Liabilities</b>		<b>2 265 264 102</b>	<b>2 105 241 231</b>
<b>Net Assets</b>			
Reserves	18	383 988 031	384 413 531
Revaluation reserve	19	3 045 886	2 692 908
Self insurance reserve		1 878 230 185	1 718 134 792
Accumulated surplus			
		<b>2 265 264 102</b>	<b>2 105 241 231</b>
<b>Total Net Assets</b>			

\* See Note 48

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Notes	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>	20	316 131 566	266 742 897
Service charges	21	15 193 296	15 068 459
Rental of facilities and equipment		13 979 592	13 618 392
Licences and permits	22	13 911 831	19 117 291
Other income	24	35 341 040	29 490 272
Investment revenue			
<b>Total revenue from exchange transactions</b>		<b>394 557 325</b>	<b>344 037 311</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>	25	180 579 393	159 481 681
Property rates			
<b>Transfer revenue</b>	26	468 762 307	384 318 650
Government grants and subsidies	27	5 111 655	178 325 110
Financial assistance	27	108 910 623	-
Public contributions and donations	28	1 025 516	967 496
Fines, penalties and forfeits			
<b>Total revenue from non-exchange transactions</b>	28	<b>764 389 494</b>	<b>723 092 937</b>
<b>Total revenue</b>		<b>1 158 946 819</b>	<b>1 067 130 248</b>
<b>Expenditure</b>			
Employee related costs	29	(328 907 200)	(310 826 620)
Remuneration of councillors	30	(22 687 264)	(20 853 933)
Depreciation and amortisation	31	(169 787 714)	(246 411 378)
Impairment loss	32	(326 443)	(11 659 395)
Finance costs	33	(14 181 970)	(16 289 902)
Lease rentals on operating lease		(24 408 439)	(26 198 250)
Debt impairment	34	(62 068 327)	(67 237 967)
Repairs and maintenance		(29 574 093)	(13 398 243)
Bulk purchases	36	(230 462 951)	(185 320 519)
Contracted services	37	(8 642 297)	(7 889 213)
Grants and Subsidies paid	38	(37 948 565)	(29 617 556)
General Expenses	39	(85 139 581)	(87 517 761)
<b>Total expenditure</b>		<b>(1 014 134 844)</b>	<b>(1 023 220 737)</b>
<b>Operating surplus</b>	40	<b>144 811 975</b>	<b>43 909 511</b>
Fair value adjustments		20 953 145	10 690 455
Loss on disposal of non-current assets		(5 669 683)	(58 869 998)
		<b>15 283 462</b>	<b>(48 179 543)</b>
<b>Surplus (deficit) for the year</b>		<b>160 095 437</b>	<b>(4 270 032)</b>

\* See Note 48

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	385 072 030	2 370 759	387 442 789	1 804 271 805	2 191 714 594
Adjustments	-	-	-	(81 866 981)	(81 866 981)
Correction of errors	-	-	-	-	-
<b>Balance at 01 July 2014 as restated*</b>	<b>385 072 030</b>	<b>2 370 759</b>	<b>387 442 789</b>	<b>1 722 404 824</b>	<b>2 109 847 613</b>
Changes in net assets	(658 499)	-	(658 499)	-	(658 499)
Revaluation of assets	-	322 149	322 149	-	322 149
Insurance reserve movement	-	-	-	-	-
Net income (losses) recognised directly in net assets	(658 499)	322 149	(336 350)	-	(336 350)
Surplus for the year	-	-	-	(4 270 032)	(4 270 032)
Total recognised income and expenses for the year	(658 499)	322 149	(336 350)	(4 270 032)	(4 606 382)
Total changes	(658 499)	322 149	(336 350)	(4 270 032)	(4 606 382)
Opening balance as previously reported	384 413 531	2 692 908	387 106 439	1 794 202 280	2 181 308 719
Adjustments	-	-	-	(76 067 532)	(76 067 532)
Correction of errors	-	-	-	-	-
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>384 413 531</b>	<b>2 692 908</b>	<b>387 106 439</b>	<b>1 718 134 748</b>	<b>2 105 241 187</b>
Changes in net assets	-	-	-	160 095 437	160 095 437
Surplus for the year	(425 500)	-	(425 500)	-	(425 500)
Revaluation of assets	-	352 978	352 978	-	352 978
Movement In Self insurance	-	-	-	-	-
Total changes	(425 500)	352 978	(72 522)	160 095 437	160 022 915
<b>Balance at 30 June 2016</b>	<b>383 988 031</b>	<b>3 045 886</b>	<b>387 033 917</b>	<b>1 878 230 185</b>	<b>2 265 264 102</b>
Notes	18	19			

\* See Note 48



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Notes	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>		140 438 140	133 933 589
Taxation		331 250 731	297 011 445
Receipts from Customers		469 048 063	295 092 283
Grants		35 407 427	29 490 272
Interest income		976 144 361	755 527 589
<b>Payments</b>		(353 302 288)	(338 200 669)
Employee costs		(395 420 573)	(336 204 982)
Suppliers		(14 181 970)	(16 289 899)
Finance costs		(762 904 831)	(690 695 550)
<b>Net cash flows from operating activities</b>	43	<b>213 239 530</b>	<b>64 832 039</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(328 546 433)	(156 479 077)
Proceeds from sale of property, plant and equipment	9	6 718 919	759 478
Purchase of investment property	8	(3 497 454)	-
Purchase of other intangible assets	10	-	(1 422 438)
Acquisition of Self Insurance		(352 978)	(322 149)
Donations of property, plant and equipment received		108 910 624	-
<b>Net cash flows from investing activities</b>		<b>(216 767 322)</b>	<b>(157 464 186)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(9 822 112)	(168 684 199)
Fair Value Adjustments		-	178 325 110
Finance lease payments		(14 335 037)	(5 217 749)
Other non cash item		-	(83 725)
<b>Net cash flows from financing activities</b>		<b>(24 157 149)</b>	<b>4 339 437</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(27 684 941)</b>	<b>(88 292 710)</b>
Cash and cash equivalents at the beginning of the year		40 186 754	128 479 464
<b>Cash and cash equivalents at the end of the year</b>	7	<b>12 501 813</b>	<b>40 186 754</b>

\* See Note 48

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## 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	331 327 725	(4 455 058)	326 872 667	316 131 566	(10 741 101)	Ref to note 44
Rental of facilities and equipment	20 587 709	(5 597 027)	14 990 682	15 193 296	202 614	Ref to note 44
Licences and permits	22 869 013	(7 926 447)	14 942 566	13 979 592	(962 974)	Ref to note 44
Other income	5 483 702	(71 053)	5 412 649	13 911 831	8 499 182	Ref to note 44
Interest received	36 640 040	(3 798 449)	32 841 591	35 341 040	2 499 449	Ref to note 44
<b>Total revenue from exchange transactions</b>	<b>416 908 189</b>	<b>(21 848 034)</b>	<b>395 060 155</b>	<b>394 557 325</b>	<b>(502 830)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	169 602 951	357 118	169 960 069	180 579 393	10 619 324	Ref to note 44
<b>Transfer revenue</b>						
Government grants & subsidies	501 254 573	83 715 161	584 969 734	468 762 307	(116 207 427)	Ref to note 44
Financial Assistance	-	-	-	5 111 655	5 111 655	Ref to note 44
Public contributions and donations	-	-	-	108 910 623	108 910 623	Ref to note 44
Fines, Penalties and Forfeits	2 601 209	(1 635 774)	965 435	1 025 516	60 081	Ref to note 44
<b>Total revenue from non-exchange transactions</b>	<b>673 458 733</b>	<b>82 436 505</b>	<b>755 895 238</b>	<b>764 389 494</b>	<b>8 494 256</b>	
<b>Total revenue</b>	<b>1 090 366 922</b>	<b>60 588 471</b>	<b>1 150 955 393</b>	<b>1 158 946 819</b>	<b>7 991 426</b>	
<b>Expenditure</b>						
Personnel	(342 445 077)	12 146 677	(330 298 400)	(328 907 200)	1 391 200	Ref to note 44
Remuneration of councillors	(22 483 372)	(649 032)	(23 132 404)	(22 687 264)	445 140	Ref to note 44
Depreciation and amortisation	(205 000 000)	(24 082 069)	(229 082 069)	(169 787 714)	59 294 355	Ref to note 44
Impairment loss/ Reversal of impairments	(8 906 666)	-	(8 906 666)	(326 443)	8 580 223	Ref to note 44
Finance costs	(5 400 000)	(12 000 000)	(17 400 000)	(14 181 970)	3 218 030	Ref to note 44
Lease rentals on operating lease	(45 124 934)	12 098 563	(33 026 371)	(24 408 439)	8 617 932	Ref to note 44
Debt Impairment	(30 050 000)	(35 000 000)	(65 050 000)	(62 068 327)	2 981 673	Ref to note 44
Repairs and maintenance	(35 161 266)	1 138 776	(34 022 490)	(29 574 093)	4 448 397	Ref to note 44
Bulk purchases	(224 883 103)	-	(224 883 103)	(230 462 951)	(5 579 848)	Ref to note 44
Contracted Services	(6 899 533)	(1 469 883)	(8 369 416)	(8 642 297)	(272 881)	Ref to note 44
Grants and Subsidies Paid	(35 804 935)	(3 602 065)	(39 407 000)	(37 948 565)	1 458 435	Ref to note 44
General Expenses	(105 988 114)	(10 801 252)	(116 789 366)	(85 139 581)	31 649 785	Ref to note 44
<b>Total expenditure</b>	<b>(1 068 147 000)</b>	<b>(62 220 285)</b>	<b>(1 130 367 285)</b>	<b>(1 014 134 844)</b>	<b>116 232 441</b>	
<b>Operating surplus</b>	<b>22 219 922</b>	<b>(1 631 814)</b>	<b>20 588 108</b>	<b>144 811 975</b>	<b>124 223 867</b>	
Fair value adjustments	-	-	-	20 953 145	20 953 145	Ref to note 44
Loss on disposal of non-current assets	-	1 253 746	1 253 746	(5 869 683)	(6 923 429)	Ref to note 44
<b>Surplus before taxation</b>	<b>22 219 922</b>	<b>(378 068)</b>	<b>21 841 854</b>	<b>160 095 437</b>	<b>138 253 583</b>	

**King Sabata Dalindyebo Municipality**  
 Financial Statements for the year ended 30 June 2016

**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>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>22 219 922</b>	<b>(378 068)</b>	<b>21 841 854</b>	<b>160 095 437</b>	<b>138 253 583</b>	

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## 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), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies applied in the preparation of these financial statements and which are consistent with those applied in the preparation of the prior year financial statements are disclosed below.

These accounting policies are consistent with the previous year.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

All figures have been rounded off to the nearest Rand.

#### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The nature and reasons for the reclassification and restatement are disclosed in Note 46 "Prior period errors", to the Financial Statements.

#### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

##### Trade 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 municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### Asset Management and Intangible Assets

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

**Assets:** Management is required to exercise judgement when assessing the fair value/deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.

**Intangible Assets:** Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

#### 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 17 - Provisions.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

#### Fair value determination of properties (excluding heritage assets)

In determining the fair value of investment property (and / or property, plant and equipment) the entity applies a valuation methodology to determine the fair value of the properties based on any one of, or a combination of the following factors:

- The market related selling price of the property; or
- The market related rental that can be earned from the property; or
- The market related selling price of similar properties in the area; or
- The rentals currently or previously earned by the property.

#### Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

#### Impairment of non-financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

### 1.5 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.

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.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, 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 day to day servicing of investment property is recognised in the statement of financial performance when incurred.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

To the extent that the fair value model is applied investment property is not depreciated.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

The assumptions for determining the fair value of the investment property is set out in Note 3 to the financial statements.

#### Derecognition

Investment property is derecognised 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.

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 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 property from owner-occupied property and from property held for sale in the ordinary course of operations established by using the criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance

### 1.6 Property, plant and equipment

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

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment 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.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

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 derecognised.

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.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

### 1.6 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life
Land		infinite
Buildings		5 - 130 years
Plant and machinery		5 - 10 years
Furniture and fixtures		3 - 5 years
Office equipment		5 - 7 years
IT equipment		5 - 7 years
- Roads and paving		30 years
- Access roads		3-10 years
- Pedestrian malls		30 years
- Electricity		10 - 50 years
- Sewerage		15 - 20 years
Community		30 - 130 years
- Buildings		20 - 30 years
- Recreational equipment		5 years
- Security		130 years
- Halls		130 years
- Libraries		20 - 30 years
- Parks and gardens		20 - 30 years
- Sport fields		
Other property, plant and equipment		5 years
- Other vehicles		7 - 10 years
- Other items of plant and equipment		4-30 years
- Landfill sites		10 - 20 years
- Fire engines		5 years
Bins and containers		
Other leased assets		5-20 years
- Motor vehicles		5 - 7 years
Laboratory equipment		



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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

Specialised vehicles	10 years
Heritage assets	Infinite
Cemetery	25 - 30 years
Stadium	25 - 30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If 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.

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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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

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.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Intangible assets (continued)

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

Reassessing the useful life of an intangible asset with a 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.

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

Internally generated goodwill is not recognised as an intangible asset.

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	2 - 5 years

### 1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Heritage assets (continued)

The municipality derecognises heritage asset 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 is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.9 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.

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

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.9 Financial instruments (continued)

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.

#### Classification

The entity 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:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity 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:

Class	Category
Other financial liability - Long term	Financial liability measured at amortised cost
Other financial liability - Short term	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at fair value

#### 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.

The municipality recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

#### Initial measurement of financial assets and financial liabilities

The entity 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.

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

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

- Financial instruments at fair value.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.9 Financial instruments (continued)

- 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 entity 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

For 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 entity 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.

#### Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset;
- or
- the entity, 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 entity:
  - 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.

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

#### **Financial liabilities**

The entity 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 entity 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.

Dividends or similar distributions 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.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.10 Leases**

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

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **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.

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 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.

## **Accounting Policies**

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### **1.10 Leases (continued)**

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.11 Inventories**

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. The basis of determining the cost is the weighted average method.

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.

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.

### **1.12 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.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

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 the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

## **Accounting Policies**

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### **1.12 Construction contracts and receivables (continued)**

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.

### **1.13 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

A cash-generating unit is the smallest identifiable group of assets managed with the 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.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### **Identification of a potential impairment**

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 test 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)**

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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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.

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.

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.

### Recognition and measurement of 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. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality 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.

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.

### 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.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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.

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

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.

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

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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.

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

## **Accounting Policies**

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### **1.14 Impairment of non-cash-generating assets (continued)**

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.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### **Identification**

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.

#### **Recognition and measurement**

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.

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.

#### **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.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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.

### 1.15 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.16 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- a municipality'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.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are 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.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

## **Accounting Policies**

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### **1.16 Employee benefits (continued)**

#### **Leave pay**

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The liability is based on the total amount of leave days due to the employees at reporting date and on the total cost to the municipality of the employees.

#### **Annual Bonuses**

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

The municipality pays out an annual bonus to its employees annually from the date of employment. A liability relating to the anticipated bonuses payable is raised and is based on the total cost to the municipality.

#### **Long service awards**

The entity provides long service awards to eligible employees, payable on completion of a certain number of years of employment. A provision is raised to account for the expected long service awards due to be paid in future years.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.

The municipality does not provide any post employment benefits to any employees.

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity 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.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

#### **Termination benefits**

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Employee benefits (continued)

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.17 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.

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.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Provisions and contingencies (continued)

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

#### Decommissioning, restoration and similar liability

The municipality has raised a provision for rehabilitation of landfill sites and this relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted over the a certain period as determined by the valuer. For key assumptions refer to Note 17 "Provisions."

### 1.18 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.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable excluding indirect taxes, rebates and discounts.

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.

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.

## **Accounting Policies**

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### **1.18 Revenue from exchange transactions (continued)**

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.

#### **Service Charges**

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and revenue is recognised providing that the benefits can be measured reliably. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on average consumption. An accrual on the basis of a determined consumption factor is made for consumption not measured as at the end of the financial year.



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

#### Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards and other services provided on a pre-payment basis are only recognised as income once the related units are consumed.

#### Refuse removal

Revenue relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

#### Rental income

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

#### Tariff Charges

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

#### Income from Agency fees

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

#### 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.

### 1.19 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.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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.

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

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.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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.

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

### 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.

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.

### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.20 Investment income

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

### 1.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

It is considered inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Surplus or deficit

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance.

Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a Standard of GRAP.

### 1.23 Contingent assets and contingent 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.

### 1.24 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.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.25 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.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

### 1.26 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.

Also included is expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

All expenditure relating to unauthorised expenditure is 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.

### 1.27 Fruitless and wasteful expenditure

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

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.

### 1.28 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.29 Internal reserves

#### Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally. The balance of the Self-Insurance Reserve is determined based on 5% of the insurance risk carried by the municipality and past claims history in terms of a Council Resolution and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

Premiums are calculated on past claims experience.

The balance of the self-insurance fund is fully cash backed and is invested in call accounts.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.30 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.31 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.32 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 approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the financial statements

Comparative information is not required.

### 1.33 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.

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 in the financial statements.

### 1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

## **Accounting Policies**

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### **1.34 Events after reporting date (continued)**

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations Issued and Effective

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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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#### 2.2 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 2016 or later periods:

##### 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 not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

##### GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.



## **Notes to the Financial Statements**

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### **2. New standards and interpretations (continued)**

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

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

#### **GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

#### **GRAP 21 (as amended 2015): Impairment of non-cash-generating assets**

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

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

#### GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

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

#### Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

**2. New standards and interpretations (continued)**

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 financial statements.

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

**3. Inventories**

Consumables Stores	6 546 891	3 293 356
Electrical Equipment	2 504 979	3 425 310
	<b>9 051 870</b>	<b>6 718 666</b>

Inventories recognised as an expense during the year

	3 189 269	2 293 756
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**4. Receivables from exchange transactions**

Creditors with debit balances	596 232	369 675
Consumer debtors Other	9 809	9 390
Consumables Sundry Debtors	1 691 222	2 075 674
Consumer debtors - Electricity	40 781 742	34 816 024
Consumer debtors - Refuse (Filtered)	89 095 812	78 981 347
Consumer debtors - Rentals	99 301 744	87 258 897
Provision for Impairment	(200 444 710)	(175 769 749)
	<b>31 031 851</b>	<b>27 741 258</b>

**Trade and other receivables pledged as security**

The municipality does not have any receivables from exchange transactions that have been pledged as security

**Fair value of trade and other receivables**

Trade and other receivables	31 031 851	27 741 258
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The fair value of Trade and other receivables from exchange transactions approximates their carrying amount.

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

The normal credit term for the municipality is 30 days. At 30 June 2016, receivables of R 11 322 188 (2015: R 13 279 664) were past due but not impaired.

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

1 month past due	4 539 770	6 976 688
2 months past due	702 643	2 346 802
3 months past due	840 575	525 036
over 3 months	4 403 544	2 855 622
Penalties and interest	835 656	575 516

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 4. Receivables from exchange transactions (continued)

#### Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 200 444 710 (2015: R 175 769 749) were impaired and provided for.

The ageing of these amounts is as follows:

1 to 3 months	29 746 017	40 309 925
4 to 6 months	11 316 017	7 811 727
Over 6 months	118 587 416	96 874 950
Penalties and interest	40 795 190	30 769 147

Included in the above are receivables from exchange transactions as follows:

<b>Electricity -Ageing</b>	18 751 185	14 744 274
Current	6 063 680	6 454 708
31 - 60 days	1 922 763	3 238 026
61 - 90 days	2 655 714	2 758 494
91 - 120 days	9 216 747	6 212 666
> 120 days	2 171 652	1 407 857
Penalties and interest		
	<b>40 781 741</b>	<b>34 816 025</b>

#### Refuse - Ageing

Current	3 799 522	3 758 102
31 - 60 days	1 350 855	11 227 596
61 - 90 days	1 337 564	5 590 364
91 - 120 days	1 205 927	1 224 355
> 120 days	67 355 566	48 569 962
Penalties and interest	14 046 378	8 630 951
	<b>89 095 812</b>	<b>79 001 330</b>

#### Rentals - Ageing

Current	1 246 224	1 087 794
31 - 60 days	1 037 505	1 027 166
61 - 90 days	993 637	941 693
91 - 120 days	934 267	853 002
> 120 days	64 854 856	58 155 905
Penalties and interest	30 235 255	25 189 992
	<b>99 301 744</b>	<b>87 255 552</b>

#### Sundry debtors- Ageing

Current	3 620	-
31 - 60 days	-	-
61 - 90 days	1 687 602	2 075 674
> 120 days	-	-
	<b>1 691 222</b>	<b>2 075 674</b>

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

Opening balance	175 769 749	144 023 310
Provision for impairment	24 674 961	31 746 439
	<b>200 444 710</b>	<b>175 769 749</b>

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

	2016	2015
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Figures in Rand

**4. Receivables from exchange transactions (continued)**

Summary of debtors by customer classification	Consumers	Industrial/ Commercial	Government	Total
<b>as at 30 June 2016</b>				
Current	4 430 578	13 231 326	3 500 115	21 162 019
31 - 60 days	1 829 854	5 352 063	1 273 744	8 455 661
61 - 90 days	1 764 817	2 311 840	177 307	4 253 964
91 - 120 days	1 659 299	2 866 952	269 657	4 795 908
>120 days	113 223 624	26 480 566	3 420 390	143 124 580
Penalties and interest	38 049 569	7 781 224	622 492	46 453 285
	160 957 741	58 023 971	9 263 705	228 245 417
	(157 083 115)	(43 361 595)	-	(200 444 710)
Less provision for impairment	<b>3 874 626</b>	<b>14 662 376</b>	<b>9 263 705</b>	<b>27 800 707</b>

**Summary of debtors by customer classification**

	Consumers	Industrial/ Commercial	Government	Total
<b>as at 30 June 2015</b>				
Current	4 215 729	9 442 975	4 014 154	17 672 858
31 - 60 days	11 066 015	6 011 380	1 632 075	18 709 470
61 - 90 days	5 538 501	3 561 593	669 988	9 770 082
91 - 120 days	1 326 186	3 231 472	278 192	4 835 850
>120 days	93 852 182	18 265 265	2 906 571	115 024 018
Penalties and interest	29 214 756	5 427 852	586 192	35 228 800
	145 213 369	45 940 537	10 087 172	201 241 078
	(142 595 244)	(33 174 505)	-	(175 769 749)
Less provision for impairment	<b>2 618 125</b>	<b>12 766 032</b>	<b>10 087 172</b>	<b>226 712 407</b>

**5. Receivables from non-exchange transactions**

Other receivables from non-exchange revenue	389 025	315 083
Consumer debtors old balances	70 564	69 464
Consumer debtors - Rates	200 696 123	159 777 863
Impairment	(184 904 134)	(147 684 235)
	<b>16 251 578</b>	<b>12 478 175</b>

**Receivables from non-exchange transactions pledged as security**

The municipality does not have any receivables from non exchange transactions that have been pledged as security.

**Fair value of receivables from non-exchange transactions**

Other receivables from non-exchange transactions	16 251 578	12 478 175
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The fair value of trade and other receivables from non exchange transactions, approximates their carrying amount.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

2016

2015

### 5. Receivables from non-exchange transactions (continued)

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

The normal credit term for the municipality is 30 days. At 30 June 2016, receivables of R 10 229 274 (2015: R 9 158 185) were past due but not impaired.

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

	776 105	4 602 469
1 month past due	606 715	256 851
2 months past due	408 800	16 046
3 months past due	7 384 760	3 856 915
more than 3 months past due	1 052 891	425 904
Penalties and interest		

#### Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 184 904 133 (2015: R 147 684 235) were impaired and provided for.

The ageing of the amounts impaired and provided for as follows:

	25 976 134	47 299 832
1 to 3 months	6 803 501	2 065 132
4 to 6 months	127 340 112	85 715 675
Over 6 months	24 784 387	12 673 597
Penalties and interest		

Included in the above are receivables from non-exchange transactions are as follows:

<b>Rates - Ageing</b>	22 039 763	19 069 612
Current	3 211 527	24 037 743
31 - 60 days	2 953 284	8 234 661
61 - 90 days	2 532 181	795 046
91 - 120 days	143 048 779	94 559 153
> 120 days	26 910 589	13 777 055
Penalties and interest		
	<b>200 696 123</b>	<b>160 473 270</b>

#### Other (old balances) - Ageing

Current	-	-
31 - 60 days	-	-
61 - 90 days	70 564	69 464
91 - 120 days	-	-
> 120 days	-	-
	<b>70 564</b>	<b>69 464</b>

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

Opening balance	147 684 235	112 153 600
Provision for impairment	37 219 899	35 530 635
	<b>184 904 134</b>	<b>147 684 235</b>

### 6. VAT receivable (payable)

VAT receivable (payable)

12 041 737 (8 487 640)

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 050	1 050
Bank balances	6 236 869	7 486 171
Own investments- Short term	5 856 614	5 369 538
Other cash and cash equivalents	407 280	27 329 995
	<b>12 501 813</b>	<b>40 186 754</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.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FNB Call Account 62090323636	837 213	2 738 409	549 033	837 213	2 738 409	550 988
ABSA Call Account- 4061496604	1 443 439	2 661 792	456 567	1 443 439	2 661 792	456 112
ABSA Cheque Account 4048218780	355 280	1 997 039	3 702 280	355 280	1 992 149	3 993 752
ABSA Cash Focus 4053806112	-	(224)	34 030	-	1 211	20 781
Self Insurance Reserve (Hollard Insurance Company - Experience Account)	3 045 886	2 692 908	2 370 759	3 045 886	2 692 908	2 370 759
ABSA Transkei United Dairies 9279137106	-	-	1 845 835	-	-	1 852 283
ABSA Call Account Ngangelizwe 9105768376	-	-	3 189 006	-	-	3 200 260
ABSA Call Account MTAB 9061932550	16 741	514 265	514 265	17 190	516 167	517 079
Unclaimed Group Life Insurance ABSA 9057846202	2 398 819	2 283 953	2 185 286	2 409 564	2 292 307	2 192 919
ABSA Call Zimbane Heights 9279140385	-	-	5 311 980	-	-	-
ABSA Target Save -Various Accounts	179 012	171 331	162 904	179 010	171 331	229 894
ABSA Call Account MIG 9148935255	-	-	9 551	-	-	42 434
ABSA Call Disaster Management 9111059492	-	-	2 300 889	-	-	2 309 010
ABSA Call Account DOE 9259916285	-	-	67 371 176	-	-	67 371 176
ABSA Call Fire Station 9260112315	-	-	2 333 449	-	-	2 341 669
ABSA Call Acc DOT 9282955018	-	-	7 638 419	-	-	7 664 902
ABSA Call Acc Grant Admin 9260118400	15 683	25 768	430 000	15 753	25 866	431 514
ABSA Call Acc MPCC 9272373062	-	-	1 857 644	-	-	1 864 133
ABSA Call Acc Ngangelizwe ISUP 9264472169	1 936	110 783	119 546	1 989	111 192	119 963
ABSA Call Acc Hillcrest ISUP 9281805743	-	-	2 194 585	-	-	2 202 251

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>7. Cash and cash equivalents (continued)</b>		
ABSA Call Acc ISUP Joe Slove 9264255581	-	14 270 370
ABSA Call Acc ISUP Maydene 9264472915	-	6 084
ABSA Call Acc 9264472541 Investec Bank Invest 1100456924	219 313	212 956
ABSA Call Acc KSD Election 9260118662	2 671	251 467
ABSA Call Acc KSD Intervention 4061496125	-	30 020
ABSA Call MSG 9097169945	54 395	53 893
ABSA Call Infrastructure Skills Development 9285398815	-	-
ABSA Call Mqanduli Milling 9118441412	3 679	3 728
ABSA Call MSIG 9153705564	-	-
ABSA Call 9279137350 Maydene Farm Ext	-	-
ABSA call Rural Planning 9260110101	3 436	449 277
ABSA Call UphuhlisoLwethu 9260112632	5 310	167 114
ABSA Call Organogram Dev 9260110397	5 888	294 477
ABSA Call Library 9279137211	-	-
ABSA Call Mqanduli Middle Income 9095799392	5 528	333 652
ABSA Call Light The Pilot 9260109699	8 082	236 947
FNB Cheque 62471836513	3 570 268	248 080
FNB Call 62480366345 DOE Electrification	16 268	3 573 255
FNB Call 62480370031 FMG	2 280	67 349
FNB Call 62480368838 MIG Account UCCMIP	13 052	1 000
FNB Call 62480371592 MSIG	3 922	205 060
FNB Call 62480372863 Library	3 644	1 070 313
FNB Call 62486520151 Infrastructure Skills Dev	2 896	360 774
FNB Call 62500280516 LED Support	1 686	106 674
FNB Call 62500281936 Chamber Of Mines	1 842	1 241 907
FNB Call 62504407801 Ngangelizwe Urban Ren	2 797	2 788 938
FNB Call 62504409477 Disaster Management	5 905	2 277 899
FNB Call 62504410383 Fire Station	4 330	2 340 938
FNB Call 62504411315 ISUP Phola Park	6 755	2 732 731
FNB Call 62504412066 Maydene ISUP	6 300	6 237
FNB Call 62504413741 Transkei United Dairies	23 712	27 066
FNB Call 62504414608 Maydene Farm Extension	34 730	125 281
FNB Call 62504417420 Zimbane Heights	40 109	47 654



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand			2016	2015
<b>7. Cash and cash equivalents (continued)</b>				
FNB Call 62504418022 ISUP	43 482	33 357	-	43 482
Hillcrest				33 357
FNB Call 62504444639 DOT	8 105	7 263 487	-	8 105
Taxi Rank				7 263 488
FNB Call 62505830811 ISUP	9 638	412 298	-	9 638
Joe Slovo				412 298
FNB Call 62521207911	644	146 420	-	644
Electricity Demand Side				146 420
FNB Call 62523941070 New	10 590	10 473	-	10 590
Brighton				10 473
FNB Call 62523942408 KEI Rail	10 590	10 474	-	10 590
FNB Call 74486524158	-	1	-	-
FNB Call 62557024785 H S	29 816	-	-	29 816
Graduates				-
FNB 62559404092 Asset	2 856	-	-	2 841
Financing				-
<b>Total</b>	<b>12 458 528</b>	<b>40 327 221</b>	<b>128 043 771</b>	<b>12 500 763</b>
				<b>40 185 705</b>
				<b>123 214 869</b>

### 8. Investment property

	2016			2015	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment
Investment property	228 859 454	-	228 859 454	205 205 355	-
					205 205 355

#### Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	205 205 355	3 497 454	(796 500)	20 953 145	228 859 454

#### Reconciliation of investment property - 2015

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	195 167 900	(653 000)	10 690 455	205 205 355

#### Pledged as security

The municipality does not have any investment property that is pledged as security.

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 2016. Revaluations were performed by an independent valuer, Mr Kwasi Agyaben-Boateng, B.Sc Honours (Land Economy) and registered as a professional valuer in terms of the Valuers Act (Registration No 3550/9), of 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.

#### Amounts recognised in surplus and deficit for the year

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>8. Investment property (continued)</b>		
Rental revenue from investment property	1 449 231	1 455 919
Fair value adjustments recognised in surplus or deficit	20 193 945	10 690 455

**9. Property, plant and equipment**

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	234 893 000	-	234 893 000	236 169 000	-	236 169 000
Buildings	302 860 461	(30 476 795)	272 383 666	270 642 511	(14 766 780)	255 875 731
Infrastructure	1 949 629 687	(1 084 636 695)	864 992 992	1 973 866 936	(1 110 251 419)	863 615 517
Community	468 166 690	(52 229 617)	415 937 073	463 153 299	(26 334 239)	436 819 060
Other property, plant and equipment	20 830 099	(15 694 352)	5 135 747	19 670 957	(12 980 128)	6 690 829
Work In Progress	505 233 001	-	505 233 001	349 610 768	-	349 610 768
Specialised vehicles	43 058 094	(13 924 690)	29 133 404	71 988 319	(40 491 676)	31 496 643
<b>Total</b>	<b>3 524 671 032</b>	<b>(1 196 962 149)</b>	<b>2 327 708 883</b>	<b>3 385 101 790</b>	<b>(1 204 824 242)</b>	<b>2 180 277 548</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	236 169 000	-	(1 276 000)	-	-	-	234 893 000
Buildings	255 875 731	32 217 930	-	-	(15 709 995)	-	272 383 666
Infrastructure	863 615 517	48 575 029	(8 059 116)	74 945 752	(113 757 747)	(326 443)	864 992 992
Community	436 819 060	1 117 940	-	3 895 450	(25 895 377)	-	415 937 073
Other property, plant and equipment	6 690 829	1 175 680	(16 478)	-	(2 714 284)	-	5 135 747
Work In Progress	349 610 768	234 463 435	-	(78 841 202)	-	-	505 233 001
Specialised vehicles	31 496 643	10 996 419	(2 240 508)	-	(11 119 150)	-	29 133 404
	<b>2 180 277 548</b>	<b>328 546 433</b>	<b>(11 592 102)</b>	<b>-</b>	<b>(169 196 553)</b>	<b>(326 443)</b>	<b>2 327 708 883</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	238 150 500	-	(1 981 500)	-	-	-	236 169 000
Buildings	270 642 786	-	-	-	(14 767 055)	-	255 875 731
Infrastructure	1 017 315 551	3 088 107	(6 141 248)	53 042 868	(144 081 634)	(59 608 127)	863 615 517
Community	455 941 979	175 265	-	6 351 278	(25 649 462)	-	436 819 060
Other property, plant and equipment	7 240 146	2 454 637	(20 433)	-	(2 983 521)	-	6 690 829
Work In Progress	375 508 306	143 599 058	(50 755 475)	(59 394 146)	-	(59 346 975)	349 610 768
Specialised vehicles	35 126 712	7 162 010	-	-	(10 792 079)	-	31 496 643
	<b>2 399 925 980</b>	<b>156 479 077</b>	<b>(58 898 656)</b>	<b>-</b>	<b>(198 273 751)</b>	<b>(118 955 102)</b>	<b>2 180 277 548</b>

#### Pledged as security

No property, plant and equipment has been pledged as security.

#### Assets subject to finance lease

Included under specialised motor vehicles are 64 vehicles which are under finance lease from Aristopix (Pty) Ltd with a total carrying amount of R (2015: R8 605 86). Refer to Note 16 "Finance Lease Obligation" for additional information.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 9. Property, plant and equipment (continued)

Included under other property, plant and equipment are 160 computers which are under a finance lease from Information Communication Technology (Pty) Ltd with a total carrying amount of R (2015: R1 618 76).

#### Revaluations

The effective date of the revaluations was 30 June 2015. Revaluations were performed by independent valuer, Mr Kwasi Agyabem-Boateng, of Messrs Khanyisa Property Management Services. Messrs Khanyisa Property Management Services are not connected to the municipality.

Land, buildings and community assets are re-valued independently after 3 - 5 years.

These assumptions used were based on current market conditions.

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.

### 10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 416 037	(1 098 786)	1 317 251	2 416 037	(721 650)	1 694 387

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	1 694 387	(377 136)	1 317 251

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	465 864	1 422 438	(77 820)	(116 095)	1 694 387

#### Pledged as security

The municipality does not have any intangible assets that are pledged as security.

### 11. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Recreational parks	4 697 000	-	4 697 000	4 697 000	-	4 697 000

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>11. Heritage assets (continued)</b>		
<b>Reconciliation of heritage assets 2016</b>		
	Opening balance	Total
Recreational parks	4 697 000	4 697 000
<b>Reconciliation of heritage assets 2015</b>		
	Opening balance	Total
Recreational parks	4 697 000	4 697 000
<b>12. Other financial liabilities</b>		
<b>At amortised cost</b>	23 937 370	27 703 811
Annuity Loan DBSA		
DBSA loan 61001245 is redeemable in March 2018 and borrowing rate is 8%		
DBSA loan 61003135 is redeemable in December 2020 and borrowing rate is based on the JIBAR rate		
DBSA loan 61001048 is redeemable in 2026 and a borrowing rate is 6.75 %		
Annuity Loan PIC	17 253 441	23 309 112
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 KSD situated at ERF 9441, 47 to 49 Sutherland Street Mthatha measuring 8.309 square metres.		
	<b>41 190 811</b>	<b>51 012 923</b>
<b>Non-current liabilities</b>		
Designated at fair value	21 209 099	24 468 409
Annuity Loan - DBSA	10 753 443	17 288 750
Annuity Loan - PIC	<b>31 962 542</b>	<b>41 757 159</b>
<b>Current liabilities</b>		
Designated at fair value	2 728 271	3 235 402
Annuity Loan DBSA	6 499 998	6 020 362
Annuity Loan - PIC	<b>9 228 269</b>	<b>9 255 764</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>	1 220 389	15 981 652
- within one year	516 654	6 022 863
- in second to fifth year inclusive	1 737 043	22 004 515
	(457 783)	(6 390 218)
less: future finance charges	1 279 260	15 614 297
<b>Present value of minimum lease payments</b>		
<b>Present value of minimum lease payments due</b>	843 746	10 704 766
- within one year	435 514	4 909 531
- in second to fifth year inclusive	1 279 260	15 614 297
	435 514	4 909 531
Non-current liabilities	846 746	10 704 766
Current liabilities	1 282 260	15 614 297

The Aristopix (Pty) Ltd motor vehicle finance lease contract was entered into during 2010. The finance lease period is for 5 years and each vehicle's period of lease begins on the delivery date and expires after 5 years. The finance lease balance is R13 690 166 (2014: R20 832 046) and attracts an average interest rate of 51% (2014: 35%) per annum.

The Information Communication Technology (Pty) Ltd computer finance computer leases contract was entered into during the 2014/15 financial year. The finance lease is for the period of 3 years and each computer's lease period begins on the delivery date and expires after 3 years. The finance lease balance had a balance of R1 924 132 (2014: R0) and attracts an average interest rate of 18% (2014: 0%) per annum.

### 14. Payables from exchange transactions

Trade payables	107 879 338	105 498 220
BT Ngebs	16 721 958	-
Operating lease smoothing	21 571	-
Deferred interest	18 392	-
Income Received In Advance	1 970 704	1 695 100
Salary payovers	17 984 767	13 067 990
Staff Prepaid Houses	1 075 999	1 075 999
Study Loans	24 335	24 335
Retentions	6 306 310	5 552 185
National Revenue Fund Funds to be surrendered	1 285 257	1 285 257
Unknown Deposits	7 509 373	6 908 549
Litigations Liability	(122 874)	(122 874)
Insurance Claims	192 701	192 701
Other payables	29 947 537	35 761 241
Deposits received	1 348 483	1 156 587
Accrued expense	14 200 280	5 006 498
Accrued Leave Pay and Bonus	51 654 865	45 372 968
Unclaimed group Life	2 014 240	2 014 240
	<b>260 033 236</b>	<b>224 488 996</b>

The fair value of Trade and other payables approximates the carrying amount.

### 15. Consumer deposits

Electricity	15 718 570	12 756 530
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

2016 2015

Figures in Rand

### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2016	2015
National: Department of Energy- Electrification Projects	1 559 320	86 430
Grant Admin Development	15 608	15 979
Provincial: Municipal Infrastructure Grant	(1 664 300)	-
Provincial: Department of Housing	333 652	333 652
Provincial : Uphuhliso Lwethu	5 280	167 114
Provincial: Rural Planning and Survey	449 250	449 250
Provincial: KSD Elections- Road Maintenance	1 251 467	251 720
Library Grant	640 286	1 060 496
LED Support	1 668	106 411
Infrastructure Skills Development	54 685	357 422
Human Settlements Projects	5 806 574	3 348 266
Human Settlements Graduates	128 775	-
Electricity Demand Side Management	429	106 429
LED Support	450 969	-
Provincial : Organogram Development	294 477	294 477
Provincial: MTAB Grant	514 265	514 265
Provincial: Municipal Systems Improvement Grant	(12 060)	105 421
Provincial: Multipurpose Community Centre	10	10
Provincial: Light the Pilot Media	236 947	236 947
Provincial: Urban Renewal Grant	2 779 830	2 779 830
Provincial: Department of Transport- Taxi Rank	7 236 277	7 236 277
Provincial: Disaster Management	1 536 138	2 270 515
Provincial: Fire Station Refurbishment	720 570	2 333 450
Provincial : Municipal Support Grant	53 893	53 893
Chamber of Mines Grant	352 882	352 882
	<b>22 746 892</b>	<b>22 461 136</b>

### Movement during the year

Balance at the beginning of the year	22 461 136	111 687 503
Additions during the year	165 444 937	90 319 000
Income recognition during the year	(162 854 723)	(178 987 240)
Re-allocation of funds	(2 206 000)	-
Interest payover to Human Settlements	(377 737)	(1 163 665)
Interest Received	279 279	605 538
	<b>22 746 892</b>	<b>22 461 136</b>

### 17. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Interest	Total
Provision for long service awards	17 536 000	(2 334 153)	-	15 201 847
Environmental rehabilitation	21 400 390	-	626 329	22 026 719
	<b>38 936 390</b>	<b>(2 334 153)</b>	<b>626 329</b>	<b>37 228 566</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 17. Provisions (continued)

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Change in provision of obligation	Interest	Total
Provision for long service awards	18 069 000	(533 000)	-	-	17 536 000
Environmental Rehabilitation	27 387 505	-	(6 619 509)	632 394	21 400 390
	<b>45 456 505</b>	<b>(533 000)</b>	<b>(6 619 509)</b>	<b>632 394</b>	<b>38 936 390</b>

#### Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites. At the current valuation date, 30 June 2016 the duration of the liability was 14 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2016 is 9.44% per annum. The assumed discount rate used at the previous valuation, 30 June 2015, was 9.084% per annum determined in the same way. At 30 June 2016 the yield on inflation linked bonds of a similar term was about 2.31% per annum. This implies an underlying expectation of inflation of 6.97% per annum with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases of 0% (2015: 0.50%). An adjustment was made to correct the financial statements so that there is consistency between the financial statements as well as the information provided by the external valuer Kazuo Resources

#### Provision for long service awards

Service cost increased the liability by R2 029 000. Interest cost over the valuation period resulted in an increase in liability by R1 371 000. Some of the employees attained milestones during the valuation period and this resulted in bonus payments of R2 276 000 which reduced the accrued liability by the same margin.

The average liability has decreased by 16% due to an increase in the net discount rate, partially offset by an increase in the average salary and an increase in the average past service.

The total liability has decreased by 13% (or R 2,334,153) due to an increase in the net discount rate from 1.21% to 1.25%, partially offset by the fact that there are 30 more eligible employees than at the last valuation.

#### Provision for long service award

	2016	2015
Opening net liability	17 536 000	18 069 000
Service cost	2 029 000	1 570 000
Interest cost	1 371 000	1 473 000
Actuarial gain/loss	(3 458 153)	(2 046 000)
Bonus Paid	(2 276 000)	(1 530 000)
	<b>15 201 847</b>	<b>17 536 000</b>

### 18. Revaluation reserve

Opening balance	384 413 531	385 072 030
Change during the year	(425 500)	(658 499)
	<b>383 988 031</b>	<b>384 413 531</b>

The revaluation reserve arises out of revaluation of land and buildings.

### 19. Self insurance reserve

The self-insurance reserve is established to cater for declined or disputed insurance claims.

Opening balance	2 692 908	2 370 759
Movement during the year	352 978	322 149
	<b>3 045 886</b>	<b>2 692 908</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>20. Service charges</b>		
Sale of electricity	281 197 609	239 978 170
Refuse removal	34 933 957	26 764 727
	<b>316 131 566</b>	<b>266 742 897</b>
<b>21. Rental of facilities and equipment</b>		
<b>Premises</b>	13 129 662	13 077 294
Premises		
<b>Facilities and equipment</b>	428 607	302 073
Rental of facilities	1 635 027	1 689 092
Rental of equipment	<b>2 063 634</b>	<b>1 991 165</b>
	<b>15 193 296</b>	<b>15 068 459</b>
<b>22. Licences and permits</b>		
Licence fees - Drivers Licence	4 843 993	5 720 244
Vehicle registration and roadworthy fees	1 526 628	1 591 840
Motor vehicle registration fees	7 437 211	6 162 837
Licence fees - Business	67 469	35 077
Permits - Vending and Hawking	104 291	108 394
	<b>13 979 592</b>	<b>13 618 392</b>
<b>23. Other Income</b>		
Building plan approvals	1 323 213	819 691
Call out revenue	24 517	1 064
Disconnection fees	483 834	410 499
Insurance claims	-	79 257
Meter testing	775 077	603 043
Library fees	140 588	-
Tender fees	545 692	540 180
Recoveries	609 016	805 090
Pound fees	15 090	42 163
Fees earned	6 792 297	8 741 921
Other income	115 711	254 977
Sundry income	752 643	199 897
Reversal of provision for Landfill Site	-	6 619 509
Reversal of provision for Long Service Awards	2 334 153	-
	<b>13 911 831</b>	<b>19 117 291</b>
<b>24. Investment revenue</b>		
<b>Interest received</b>	3 340 930	4 398 838
Interest from investments and bank	32 000 110	25 091 434
Interest charged on trade and other receivables	<b>35 341 040</b>	<b>29 490 272</b>

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	39 829 181	40 906 302
Commercial	62 244 557	44 772 846
State	77 991 444	73 316 890
Municipal - parking	514 211	485 643
	<b>180 579 393</b>	<b>159 481 681</b>
<b>Valuations</b>		
Residential	7 897 555 500	8 053 745 000
Commercial	4 086 428 500	2 448 851 500
State	3 391 072 500	2 251 422 000
Municipal	2 011 314 000	2 568 707 000
Small holdings, farms and agriculture	59 104 000	13 042 000
Open spaces	44 651 500	745 116 500
Places of public worship	109 630 000	112 675 000
Vacant Land	583 187 000	767 420 500
Schools	-	405 744 000
	<b>18 182 943 000</b>	<b>17 366 723 500</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The Department of Education has become the sole custodian for schools therefore the schools property category now falls under "State".

**26. Government grants and subsidies**

<b>Operating grants</b>		
Equitable share	251 210 000	206 246 000
MIG	1 612 413	2 288 362
VAT Operational	133 793	(2 259 997)
Electricity Demand Side Management Grant	-	2 641 395
Disaster Management Grant	728 780	30 374
Infrastructure Skills Development	3 456 119	3 527 558
Human Settlements: Graduates	714 002	-
MM Intervention Grant	-	31 081
SETA Grant	876 526	497 963
MSIG Grant	1 000 341	987 377
FMG	1 193 928	1 538 687
Various grants	266 578	995 979
Library Grant	2 025 696	1 623 934
Urban Renewal	-	399 233
Expanded Public Program Grant	1 471 000	1 529 000
	<b>264 689 176</b>	<b>220 076 946</b>

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
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**26. Government grants and subsidies (continued)**

<b>Capital grants</b>	52 350 656	-
Provincial: Infrastructure Intervention	1 612 880	-
Fire Station Refurbishment	74 189 113	68 895 496
MIG	12 152 826	16 023 363
VAT Capital	45 761 419	28 538 537
Human Settlement	18 006 237	50 784 308
DOE Grant	<u>204 073 131</u>	<u>164 241 704</u>
	<u><b>468 762 307</b></u>	<u><b>384 318 650</b></u>

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

Conditional grants received	202 486 584	161 286 342
<b>Unconditional grants received</b>	251 210 000	206 246 000
Equitable Share	876 526	497 963
SETA	1 471 000	1 529 000
Expanded Public Program Grant	133 793	681 555
VAT Operational	12 152 826	16 023 363
VAT Capital	266 578	995 979
Various grants	<u>468 597 307</u>	<u>387 260 202</u>

**Equitable Share**

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

All registered indigents receive a monthly subsidy and the total expenditure for the period was R 17 396 216 (2015: R 10 558 242), which is funded from the grant.

**Human Settlements ISUP**

Balance unspent at beginning of year	3 348 266	30 580 796
Current-year receipts	50 418 161	-
Conditions met - transferred to revenue	(45 761 418)	(28 538 537)
Interest received	279 279	545 860
Transfer from MPCC	107 430	1 923 832
Transfers out	(2 207 460)	(1 163 685)
Interest payover	(377 684)	-
	<u>5 806 574</u>	<u>3 348 266</u>

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

**Electricity Demand Site Management**

Balance unspent at beginning of year	106 429	117 351
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(3 010 922)
Reallocation of funds	(106 000)	-
	<u>429</u>	<u>106 429</u>

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

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>26. Government grants and subsidies (continued)</b>		
<b>Grant Admin Development</b>		
Balance unspent at beginning of year	15 979	430 000
Current-year receipts	(371)	(414 021)
Conditions met - transferred to revenue	<u>15 608</u>	<u>15 979</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>DOHS: Community Multipurpose Centre Ngangelizwe</b>		
Balance unspent at beginning of year	10	1 864 144
Interest	-	59 680
Transfer to Maydene	-	(1 923 814)
	<u>10</u>	<u>10</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Uphuhliso Lwethu</b>		
Balance unspent at beginning of year	167 114	178 503
Conditions met - transferred to revenue	(161 834)	-
Other	-	(11 389)
	<u>5 280</u>	<u>167 114</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: MTAB Grant</b>		
Balance unspent at beginning of year	514 265	514 265
Current-year receipts	-	-
	<u>514 265</u>	<u>514 265</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	28 640 809
Current-year receipts	83 665 000	63 872 000
Conditions met - transferred to revenue	(85 329 300)	(92 512 809)
	<u>(1 664 300)</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>26. Government grants and subsidies (continued)</b>		
<b>National: Financial Management Grant</b>		
Current-year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 224 031)	(1 600 000)
	<b>450 969</b>	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial : Intervention Grant</b>		
Balance unspent at beginning of year	-	31 081
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(31 081)
	-	-
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	105 421	192 554
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(1 047 481)	(1 021 133)
	<b>(12 060)</b>	<b>105 421</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Rural planning &amp; survey</b>		
Balance unspent at beginning of year	449 250	449 250
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>449 250</b>	<b>449 250</b>
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	236 947
Current-year receipts	-	-
	<b>236 947</b>	<b>236 947</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: KSD Elections- Road Maintanance</b>		
Balance unspent at beginning of year	251 720	251 720
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(253)	-
	<b>1 251 467</b>	<b>251 720</b>
Conditions still to be met - remain liabilities (see note 16).		

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>26. Government grants and subsidies (continued)</b>		
<b>Department of Housing and Local Government</b>		
Balance unspent at beginning of year	333 652	333 652
Current-year receipts	-	-
	<b>333 652</b>	<b>333 652</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Library Grant</b>		
Balance unspent at beginning of year	1 060 496	1 033 995
Current-year receipts	1 714 000	1 714 000
Conditions met - transferred to revenue	(2 134 210)	(1 687 499)
	<b>640 286</b>	<b>1 060 496</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Urban Renewal Grant</b>		
Balance unspent at beginning of year	2 779 830	3 179 064
Conditions met - transferred to revenue	-	(399 234)
	<b>2 779 830</b>	<b>2 779 830</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Infrastructure Skills Development</b>		
Balance unspent at beginning of year	357 422	980 548
Current-year receipts	3 200 000	3 000 000
Conditions met - transferred to revenue	(3 502 737)	(3 623 126)
	<b>54 685</b>	<b>357 422</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Organogram Development Grant</b>		
Balance unspent at beginning of year	294 477	294 477
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	7 236 277
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial : Disaster Management Grant</b>		
Balance unspent at beginning of year	2 270 515	2 300 889
Conditions met - transferred to revenue	(734 377)	(30 374)
	<b>1 536 138</b>	<b>2 270 515</b>
Conditions still to be met - remain liabilities (see note 16).		

**King Sabata Dalindyebo Municipality**  
 Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>26. Government grants and subsidies (continued)</b>		
<b>Provincial Fire Station Refurbishment Grant</b>		
Balance unspent at beginning of year	2 333 450	2 333 450
Conditions met - transferred to revenue	(1 612 880)	-
	<u>720 570</u>	<u>2 333 450</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial:Municipal Support Grant</b>		
Balance unspent at beginning of year	53 893	53 893
Conditions still to be met - remain liabilities (see note 16).		
<b>LED Support</b>		
Balance unspent at beginning of year	106 411	229 275
Current-year receipts	-	-
Conditions met - transferred to revenue	(104 743)	(122 864)
	<u>1 668</u>	<u>106 411</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>LLR Chamber of Mines</b>		
Balance unspent at beginning of year	352 882	888 252
Conditions met - transferred to revenue	-	(535 370)
	<u>352 882</u>	<u>352 882</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>National: Department of Energy - Electrification Projects</b>		
Balance unspent at beginning of year	86 430	57 977 120
Current-year receipts	22 000 000	-
Conditions met and transferred to revenue	(20 527 110)	(57 890 690)
	<u>1 559 320</u>	<u>86 430</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Department of Transport: Taxi Rank</b>		
Current-year receipts	842 777	-
Conditions met and transferred to revenue	(714 002)	-
	<u>128 775</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 26. Government grants and subsidies (continued)

#### Changes in level of government grants

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

### 27. Public contributions and donations

Financial Assistance	5 111 655	178 325 110
Public contributions and donations	108 910 623	-
	<b>114 022 278</b>	<b>178 325 110</b>

Financial assistance received relates to payments made to Eskom on behalf of the municipality by COGTA. The municipality was having cashflow challenges and COGTA assisted by paying the amount as it was overdue.

### 28. Revenue

Service charges	316 131 566	266 742 897
Rental of facilities and equipment	15 193 296	15 068 459
Licences and permits	13 979 592	13 618 392
Financial Assistance	5 111 655	178 325 110
Other income	13 911 831	19 117 291
Interest received	35 341 040	29 490 272
Property rates	180 579 393	159 481 681
Government grants & subsidies	468 762 307	384 318 650
Public contributions and donations	108 910 623	-
Fines, Penalties and Forfeits	1 025 516	967 496
	<b>1 158 946 819</b>	<b>1 067 130 248</b>

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

Service charges	316 131 566	266 742 897
Rental of facilities and equipment	15 193 296	15 068 459
Licences and permits	13 979 592	13 618 392
Other income	13 911 831	19 117 291
Interest received	35 341 040	29 490 272
	<b>394 557 325</b>	<b>344 037 311</b>

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

Taxation revenue	180 579 393	159 481 681
Property rates	468 762 307	384 318 650
Transfer revenue	5 111 655	178 325 110
Government grants & subsidies	108 910 623	-
Financial Assistance	1 025 516	967 496
Public contributions and donations		
Fines, Penalties and Forfeits	<b>764 389 494</b>	<b>723 092 937</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>29: Employee related costs</b>		
Basic	193 336 262	174 412 133
Acting allowances	6 897 166	6 670 919
Overtime payments	10 505 317	12 612 162
Bonus- Annual Leave	13 726 824	11 857 626
Medical aid - company contributions	24 641 630	21 363 378
Pension and Provident Fund Contribution	26 338 993	24 194 966
UIF	1 838 559	1 737 046
WCA	1 755 543	3 346 517
Leave pay provision charge	7 221 781	14 864 997
Other short term costs	-	1 441 182
Travel, motor car, accommodation, subsistence and other allowances	14 519 870	12 525 654
Long-service awards	5 353 226	4 484 541
Housing benefits and allowances	17 430 521	16 345 269
Termination benefits	5 341 508	4 970 230
	<b>328 907 200</b>	<b>310 826 620</b>
 <b>Remuneration of municipal manager</b>		
Annual Remuneration	310 742	71 665
Contributions to UIF, Medical and Pension Funds	446	297
Other	4 804	2 140
	<b>315 992</b>	<b>74 102</b>
 <b>Remuneration of chief finance officer - N. Ntshanga</b>		
Annual Remuneration	-	503 363
Car Allowance	-	157 392
Contributions to UIF, Medical and Pension Funds	-	59 500
Other	-	133 083
	-	<b>853 338</b>
 <b>Remuneration of chief finance officer - E Jiholo</b>		
Annual remuneration	1 109 210	-
Acting allowance	65 855	-
Back pay	67 670	-
Contributions to UIF, Medical and Pension Funds	1 785	-
Other	52 869	-
	<b>1 297 389</b>	<b>-</b>
 <b>Remuneration of Director: Technical Services</b>		
Annual Remuneration	1 209 334	1 154 416
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Other	81 762	81 698
	<b>1 292 881</b>	<b>1 237 899</b>
 <b>Remuneration of Director: Community Services</b>		
Annual Remuneration	1 185 871	1 120 977
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Other	82 987	40 109
	<b>1 270 643</b>	<b>1 162 871</b>

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Director: Corporate services</b>		
Annual Remuneration	1 100 652	416 849
Back pay	112 091	-
Contributions to UIF, Medical and Pension Funds	1 785	892
Other	56 965	-
	<b>1 271 493</b>	<b>417 741</b>
<b>Remuneration of Director : Public Safety</b>		
Annual Remuneration	1 100 652	531 013
Backpay	112 091	-
Contributions to UIF, Medical and Pension Funds	1 785	-
Other	47 724	12 729
	<b>1 262 252</b>	<b>543 742</b>
<b>Remuneration of Director : Human Settlements</b>		
Annual Remuneration	1 216 816	1 159 815
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Other	29 642	207 119
	<b>1 248 242</b>	<b>1 368 718</b>
<b>Remuneration of Director: Local Economic Development</b>		
Annual Remuneration	1 185 871	1 120 977
Acting Allowance	24 620	-
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Other	26 757	24 265
	<b>1 239 033</b>	<b>1 147 027</b>
<b>30. Remuneration of councillors</b>		
Executive Major	851 302	849 217
Chief Whip	658 225	591 234
Speaker	622 986	621 880
Councillors	20 554 751	18 791 602
	<b>22 687 264</b>	<b>20 853 933</b>
<b>In-kind benefits</b>		
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 and the Speaker of the Council have the use of separate Council owned vehicles for official duties.		
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	169 787 714	246 411 378
<b>32. Impairment loss</b>		
<b>Impairment of assets</b>	326 443	11 659 395
Property, plant and equipment		

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>33. Finance costs</b>		
Borrowings	8 899 119	11 499 477
Trade and other payables	5 282 851	4 790 425
	<b>14 181 970</b>	<b>16 289 902</b>
<b>34. Debt impairment</b>		
Impairment of debtors	62 068 327	67 237 967
<b>35. Repairs and maintenance</b>		
Buildings	596 575	562 202
Computer equipment and software	365 887	9 501
Electrical	9 019 665	3 310 213
Fencing	53 623	326 003
Furniture and office equipment	32 217	7 118
Roads and streets	12 156 025	6 709 440
Toilets	505	16 906
Tools and equipment	61 069	98 605
Traffic	4 397 357	371 864
Vehicles, machinery and plant	2 891 170	1 986 391
	<b>29 574 093</b>	<b>13 398 243</b>
<b>36. Bulk purchases</b>		
Electricity	230 462 951	185 320 519
<b>37. Contracted services</b>		
Collection of arrear debts	5 643 494	3 950 040
Tourism	162 739	170 175
Other	841 280	1 261 643
Agency Fees Security Services	1 994 784	2 507 355
	<b>8 642 297</b>	<b>7 889 213</b>
<b>38. Grants and Subsidies paid</b>		
<b>Other subsidies</b>	933 717	970 605
Other grants	3 928 000	3 662 015
Council ward committees	1 023 743	929 896
Municipal systems improvement grant	476 816	639 660
SETA	503 261	-
Bursaries	1 569 342	991 755
Public expense	17 396 216	10 558 243
Indigent Subsidy	161 834	9 990
Uphuhliso Lwethu	1 730 614	1 231 798
Expanded Public works program	796 546	34 688
Department of Local Government	-	2 641 395
Electricity demand side management	2 880 466	3 719 874
Infrastructure skills development grant	1 909 621	1 486 169
Finance Management Grant	1 874 328	458 586
Library grant	2 764 061	2 282 882
Ward based budgeting	<b>37 948 565</b>	<b>29 617 556</b>

**King Sabata Dalindyebo Municipality**  
Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>39. General expenses</b>		
Advertising	542 663	687 229
Audit committee expenses	185 397	87 179
Auditors remuneration	8 007 208	9 447 041
Bank charges	860 931	1 016 789
Cleaning	1 001 488	949 787
Commission paid	2 378 505	2 324 300
Community development and training	1 642 036	594 089
Conferences and seminars	396 598	331 691
Consulting and professional fees	5 527 936	7 551 891
Consumables	1 893 337	2 105 776
Donations	1 170	-
Entertainment	244 803	136 127
Erven Cleaning Fees	76 219	1 372 650
Fuel and oil	6 240 511	6 884 376
Insurance	3 217 342	3 054 785
Legal Fees	13 005 907	11 120 705
Levies	6 097 257	6 185 514
Magazines, books and periodicals	2 280	12 727
Material & Stores	2 434 270	4 112 322
Motor vehicle expenses	255 596	146 289
Municipal Service Charges	3 563 580	2 192 371
Other expenses	3 844 059	5 374 026
Printing and stationery	2 515 063	2 128 515
Promotions and sponsorships	652 175	682 276
Recruitment Expenses	148 259	411 284
Rehabilitation of Tip Sityes	2 797 746	1 919 710
Royalties and license fees	2 779 631	1 934 286
Solid waste management	680 968	1 168 539
Staff welfare	69 594	57 566
State Funeral Expenses	-	(570)
Subscriptions and Membership Fees	1 897	1 936
Subsistence & Travelling	1 989 126	2 510 608
Telephone and fax	6 622 918	6 628 835
Tourism Development	49 268	39 272
Training	3 573 925	2 664 278
Uniforms	1 439 260	1 562 127
Valuation expenses	400 658	121 435
	<b>85 139 581</b>	<b>87 517 761</b>
<b>40. Fair value adjustments</b>		
Investment property (Fair value model)	20 953 145	10 690 455
<b>41. Auditors' remuneration</b>		
Fees	8 007 208	9 447 041
<b>42. Operating lease</b>		
The municipality has entered into various operating lease agreements for the lease of printers and copiers. The lease periods vary between 3 and 5 years with an annual escalation of 10% on the annual rentals.		
<b>Operating Lease Obligation</b>	294 629	308 811
Payable within 12 months	6 017	91 148
Payable within 2 - 5 years	<b>300 646</b>	<b>399 959</b>

**King Sabata Dalindyebo Municipality**  
 Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>43. Cash generated from operations</b>	<b>160 095 437</b>	<b>(4 270 032)</b>
Surplus (deficit)	169 787 714	246 411 378
<b>Adjustments for:</b>	5 669 683	58 869 998
Depreciation and amortisation	(20 953 145)	(10 690 455)
(Gain)/Loss on sale of assets and liabilities	326 443	11 659 395
Fair value adjustments	62 088 327	67 237 967
Impairment deficit	(1 707 824)	(6 520 115)
Debt impairment	(108 910 624)	(178 325 110)
Movements in provisions	66 380	-
Other non-cash items - Donations	(2 333 204)	3 867 336
Other non-cash items	(3 290 593)	14 210 846
<b>Changes in working capital:</b>	(62 068 327)	(67 237 967)
Inventories	(3 773 403)	8 975 939
Receivables from exchange transactions	35 544 247	34 540 913
Movement in provision for debt impairment	(20 529 377)	(26 085 652)
Receivables from non-exchange transactions	285 756	(89 226 367)
Payables from exchange transactions	2 962 040	1 413 965
VAT	-	-
Unspent conditional grants and receipts	-	-
Consumer deposits	<b>213 239 530</b>	<b>64 832 039</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 44. Budget differences

#### Material differences between budget and actual amounts

Only variances exceeding 10% or R1 million are considered material and have been explained below.

#### Other income

This is due to the reversal of the provisions for landfill sites and long service awards and the overcollection of other income items.

#### Grants and subsidies

The underspending of R116 million is as a result of unfunded commitments by Human Settlements and old grants that could not be spent due to litigation on the projects funded.

#### Financial assistance

An amount of R5 million was received from National Treasury that was not budgeted for.

#### Public contributions and donations

An amount of R108.9 million was received that consists of buildings that were donated by Public Works and roads that were constructed by SANRAL, OR Tambo and BT Ngebs.

#### Depreciation

A large number of redundant assets and fully depreciated assets were disposed of.

#### Impairment loss

The majority of roads were newly constructed in 2015 and no disasters occurred during the year under review that would have affected their condition.

#### Lease rentals on operating lease

This is due to disputed leases that were put on hold.

#### Repairs and maintenance

Due to cashflow challenges that the municipality is facing repairs and maintenance could only be carried out when the funds were available.

#### General expenses

This is due to financial constraints.

### 45. Commitments

#### Authorised capital expenditure

#### Already contracted for but not provided for

- Property, plant and equipment

236 108 579	119 120 405
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#### Total capital commitments

Already contracted for but not provided for

236 108 579	115 925 632
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

### 46. Contingencies

At year end the municipality had the following contingent assets and contingent liabilities.

#### Pending litigations and claims

Disclose:

- any contingent liabilities that the venturer has incurred in relation to its interest in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other ventures.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

2016

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Figures in Rand

### 46. Contingencies (continued)

- its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable, and
- those contingent liabilities that arise because the venturers is contingently liable for the liabilities of the other venturers of a joint venture.

Description	Claim	Estimated legal costs	Heading
<b>2006</b>			
Sakhiwo Robert Dudumashe // KSD Claim for damages due to alleged withholding of councillors' salaries and allowances. Dormant for many years, being revived now.	300 000	200 000	-
Dowa Vena Mgudlwa // KSD Claim for damages allegedly suffered due to alleged illegal withholding of councillors' salaries and allowances. Dormant for many years, being revived now.	300 000	200 000	-
Nyusile Majokweni // KSD Claim for damages allegedly suffered due to alleged withholding of councillors' salaries and allowances. Dormant for many years, being revived now.	300 000	200 000	-
Richard Ngqele // KSD Claim for damages allegedly suffered due to alleged illegal withholding of councillors' salaries and allowances. Dormant for many years, being revived now.	300 000	200 000	-
Fumanekile Hintsho // KSD Claim for damages allegedly suffered due to alleged illegal withholding of councillors' salaries and allowances. Dormant for many years, being revived now.	300 000	200 000	-
<b>2007</b>			
Ilitha Lelizwe // KSD Municipality Company engaged to reconcile VAT collections and claim rebates from SARS on behalf of the municipality is claiming commission on the basis that it successfully rendered the services as agreed. Matter is still pending	1 919 340	300 000	-
Max Prof // KSD Municipality Claim for Commission due, owing and payable allegedly flowing from an agreement to reconcile VAT and claim what is due to KSD. The matter is still pending.	8 481 148	450 000	-
Nomthunzi Simane // KSD Municipality Claim for damages in respect of illegal, unlawful arrest and detention and contumelia. The matter is still pending.	100 000	50 000	-
<b>2012</b>			
Charmaine Ursula Barkley // KSD Municipality Claim for damages arising out of the electrocution of a child. Merits already conceded. Municipal legal representatives still waiting for expert report from plaintiff's legal representative. A settlement negotiation is being explored.	2 160 000	150 000	-
Meyisi Xatula // Municipality Claim for unlawful arrest and detention. Pending.	500 000	100 000	-

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015	
<b>46. Contingencies (continued)</b>	200 000	80 000	-
Buyisile Jobe // KSD Municipality Claim for damages arising out of alleged unlawful arrest and detention.			
Musa Lonwabo Kwetana // KSD Municipality Alleged assault by the "members of the municipality's law enforcement officers". The matter is still pending.	80 000	30 000	-
<b>2013</b>		400 000	-
A K Velebhayi // KSD Municipality Challenge to a dismissal perceived to have been unlawful arrest and detention. The matter is still pending.			
Naledi Mgwebi // KSD Municipality Claim for damages for alleged botched midwifery procedures leading to birth of a deformed child. The matter is still pending.	750 000	350 000	-
Pumza Malefane // KSD Municipality Claim for damages allegedly caused due to blockage of storm water drain leading to damage to vehicle. The matter is still pending.	65 194	90 000	-
Zamile Derrick Ntshoyi // KSD Municipality Alleged unlawful arrest, detention and loss of money. The matter is still pending.	175 000	120 000	-
Faneekhaya Ngxola // KSD Municipality Claim for damages for alleged unlawful arrest, detention, deprivation of liberty and humiliation. The matter is still pending.	450 000	50 000	-
Viwe Madyibhi // KSD Municipality Claim for damages for alleged broken ankle, pain and suffering and psychological trauma and stress due falling in an open hole. The matter is still pending.	4 888 000	120 000	-
Mlimli Mzini // KSD Municipality Claim for damages and financial loss suffered due to lapsed policies as a result of alleged unfair dismissal and malicious hauling before a disciplinary hearing. The matter is still pending.	2 474 655	300 000	-
Monwabisi Memela // KSD Municipality Alleged wrongful and malicious setting of the law in motion against the plaintiff by some fellow employees. The matter is still pending.	155 000	150 000	-
Mabatho Eppydodia Veco // KSD Municipality Claim for damages for alleged failure to cover a pit resulting in the plaintiff getting injured. The matter is still pending.	500 000	250 000	-
Zoleka Tamia Mgogoshe // KSD Claim for damages allegedly suffered due to falling in a dug hole allegedly left uncovered. The matter is still pending.	400 000	150 000	-
Zondwa Lutshete // KSD Claim for damages for alleged unlawful, wrongful arrest and detention. Matter ripe for hearing. Waiting for a court date.	400 000	90 000	-



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015	
<b>46. Contingencies (continued)</b>	400 000	90 000	-
Mpendulo Vava // KSD Claim for damages for alleged unlawful wrongful arrest and detention. Matter ripe for hearing. Waiting for a court date.			
Welekazi Sokuthu // KSD Municipality Claim for alleged unlawful arrest and detention. The matter is still pending.	150 000	35 000	-
Nomaludwe Magida // KSD Municipality Claim for damages arising out of the alleged falling into an uncovered drainage. Ripe for hearing.	280 000	100 000	-
<b>2014</b>	654 000	100 000	-
Thobile Ngcame // KSD Municipality & Others Motor vehicle accident. Insurance repudiated liability. The matter is still pending.			
Vuyolwethu Fihla // KSD Municipality Claim for damages for alleged unlawful, wrongful arrest and detention. The matter is still pending.	451 000	60 000	-
Mcingeleni Sikade // KSD Local Municipality Claim for damages arising out of an impounded combi which allegedly got stripped at the municipal pound. The matter is still pending.	180 000	250 000	-
Lwandiso Menze & Others // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	1 800 000	200 000	-
KSD Municipality & Others // Erf 778 (UMT) Prop. CC Interdict interdicting the respondent from executing a writ of execution. The determination of the costs is still pending.	-	300 000	-
Thumekile Phalamahashe** Claim for damages arising out of an incident of electrocution. The matter is still pending. The insurance matter accepted and defended at the instance of the insurance. The claimed amount exceeds the amount of the cover. R12 million claimed, maximum cover R2 million.	10 000 000	-	-
Nomawabo Lubanga // KSD Claim for acting allowance. The matter is still pending.	-	200 000	-
<b>2015</b>	300 000	60 000	-
Wandile Macingwana // KSD Claim for damages resulting from alleged illegal stripping of an impounded kombi. The matter is being defended.			
Sibongile Ratshalala // KSD Municipality and Chief Traffic Officer, KSD Claim for loss of income. The matter is still pending.	349 200	60 000	-
Amanda Bekezulu // KSD Municipality Claim for alleged unlawful arrest and detention. The matter is still pending and being defended.	100 000	30 000	-
Mzikayifani Gumede // KSD Claim for damages in respect of alleged assault by a municipal traffic officer. Defended and still pending.	200 000	50 000	-

# King Sabata Dalindyebo Municipality

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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>46. Contingencies (continued)</b>		
Jabu BV Njomane // KSD* Claim for monies due as result of an agreement allegedly reached among the parties. Defended and still pending.	2 364 309	300 000
Sibonelelo Mavume // KSD Municipality Claim for damages arising out of alleged illegal impounding of vehicle. The matter is being defended.	210 000	60 000
KSD // Taylor & Taylor & Others Judgement against the municipality rescinded and set aside, municipality granted leave to defend the case. The matter is still pending.	352 933	150 000
KSD // Ikamva Civils Claim for moneys owing, due and payable. The matter is still pending.	-	100 000
M Nondlwana* // KSD Claim for damages arising out of alleged shooting incident by municipal law enforcement or traffic police. The matter is still pending.	2 000 000	300 000
KSD Municipality // Unknown Persons - illegal occupants of erven* Eviction proceedings. The matter is still pending.	-	300 000
Patrick Mpaka & 3 Others* Application for declaratory order. The matter is still pending.	-	300 000
A Ndlambe & 28 Others // KSD Municipality Claim for alleged illegal damage to structures.	270 969	129 031
African Bulk Earthworks // KSD This is a matter incidental to Landmark/ KSD case. The applicant's legal representative is alleging that he made a mistake by not adding the word compound when claiming interest. In a nutshell the applicant's legal representative is saying it erroneously neglected to claim a compounded interest. opposed	-	26 924 200
Big Blue Marketing t/a Ikwezi Computers // KSD Case no. 3247/15 Damages for alleged breach of contract.	-	300 000
Adrian Howard Bell / Mfihlo & Others Interdicting the municipality from disconnecting electricity.	-	400 000
Siyabonga Abednigo Fikizolo // KSD Municipality Claim for damages arising out of the alleged unlawful arrest and detention.	-	250 000
Jabulani Petros Mdlalose // KSD Municipality Claim for alleged unlawful arrest and detention.	-	150 000
Ngoza Marhasha // KSD Municipality Mandament van spolie for the release of a motor vehicle.	-	100 000
	-	820 000
	-	200 000
		500 000
		30 000 000

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>46. Contingencies (continued)</b>		
Sikhumbuzo Mange // KSD Municipality Case no. 857/16 Claim for underpayment.	150 000	-
Mthatha High School // KSD Case no. 173/2016 Interdicting the municipality from disconnecting electricity.	40 000	-
Big Blue Marketing t/a Ikwezi Computers // KSD Case no. 772/16 Damages for alleged breach of contract.	100 000	-
Cape Gannet Properties 118 (Pty) Ltd // KSD Breach of contract.	-	-
Proud Heritage Properties (Pty) Ltd // KSD Breach of contract.	-	-
KSD Municipality // Illegal Occupants, remainder of ERF 912 Eviction proceedings.	200 000	-
	300 000	-
	150 000	-
KSD Municipality // Makhubu Consortium Eviction proceedings.	150 000	-
Adrian Howard Bell // KSD Interdict and contempt.	50 000	-
KSD / Qotoyi Return of a motor vehicle allegedly unlawfully disposed.	300 000	-
Jerome Frank Heunis & Others // KSD Municipality Claim for damages allegedly suffered.	500 000	-
Ma-Botho Bodio // KSD Municipality Claim for defamation	280 000	-
KSD Municipality // Lwandile Nyebevu Application for reinstatement after employee dismissed and for a higher post.	300 000	-
	300 000	-
KSD Municipality // Erf 778 (UMT) Prop. CC Urgent application to interdict payment by FNB after writ. Matter to be withdrawn.	50 000	-
	90 000	-
	200 000	-
Lubanga Nomawabo // KSD Municipality Claim for acting post.	60 000	-
Sibongile Ratshalala Claim for loss of income.	90 000	-
Wandile Macingwana // KSD Municipality Claim for damages from stripping of motor vehicle at the municipal pound.	-	-

**King Sabata Dalindyebo Municipality**  
 Financial Statements for the year ended 30 June 2016

**Notes to the Financial Statements**

Figures in Rand	2016	2015
<b>46. Contingencies (continued)</b>	-	-
Naledi Mgwebi // KSD Municipality Claim for damages arising from the alleged denial of medical treatment for a woman in labour.	1 100 000	-
Fanék'haya Ngxola // KSD Municipality Claim for damages for alleged unlawful arrest, detention, deprivation of liberty and humiliation.	50 000	-
A. Ndlame & 28 Other // KSD Municipality Case no. 631/15 Claim for re-imburements of demolished shacks / structures near Maydene Farm, Mthatha.	400 000	-
Lehlohonolo Mokoena & 13 Others // KSD Municipality & Another Case no. 3319/15 Claim for damages for wrongful arrest and detainment.	800 000	-
	<b>45 260 748</b>	<b>42 308 231</b>
		<b>30 500 000</b>

# King Sabata Dalindyebo Municipality

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## Notes to the Financial Statements

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### 47. Related parties

The following transactions with related parties occurred in the period under review.

Related party transactions	2016	2015
Cllr M H Mtirara - Crossbar Agencies	-	558 459
Cllr Z V Maqabuka - Vivile Publishers and Booksellers	-	2 882
Cllr K K Mdikane - Rhweba Trading	-	975
Cllr K K Mdikane - Rhweba Trading 1131 CC	-	198 000
		<u>760 316</u>

Relationships  
Mayor

Cllr N Ngqongwa

Speaker

Cllr D M Zozo

Chief Whip

Cllr Z M Gusana

Executive council members

Cllr L N Ntlonze  
Cllr M S Mlandu  
Cllr F R S Ngcobo  
Cllr M T Mtirara  
Cllr L R Madyibi  
Cllr N R Gcingca  
Cllr N A Ndiela

Key management

M Zenzile (Municipal manager)  
E Jiholo (CFO)  
Z H Ngovela (Director: Technical services)  
L P Maka (Director: Community services)  
A Mdeleleni (Director: Corporate services)  
F Gaba (Director: Public safety)  
N N Soldati (Director: Human settlements)  
R B Mnqokoyi (Director: LED)

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

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### 47. Related parties (continued)

Councillors

Cllr A Z Luyenge  
Cllr K K Mdikane  
Cllr N Nyangani  
Cllr B Mazini  
Cllr B Momoza  
Cllr B Ndlobongela  
Cllr B D Bara  
Cllr E M Fileyo  
Cllr T E Mapekula  
Cllr F M Mtwana  
Cllr G N Nelani  
Cllr H N Maroloma  
Cllr J Dlamini  
Cllr K N Kwetana  
Cllr K W Tsipa  
Cllr L A Tshiseka  
Cllr L L Mkhonto  
Cllr L M 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 M A Zimela  
Cllr M H Mtirara  
Cllr M I Xentsa  
Cllr J Msakeni  
Cllr N Mpemnyama  
Cllr N Mtwana  
Cllr N Pali  
Cllr N Qwase  
Cllr Z N Mncunza  
Cllr V Dangala  
Cllr N F Mzimane  
Cllr W V Sanda  
Cllr R Knock  
Cllr P P Nontshiza  
Cllr Z Magazi  
Cllr Z V Maqabuka  
Cllr F Dondashe  
Cllr S Nyengane  
Cllr N Sikonkotela  
Cllr S Mlamli  
Cllr N S Kwaza  
Cllr M Mtirara  
Cllr S Njemla  
Cllr T Nqadolo  
Cllr X Matiti  
Cllr V O Gwadiso  
Cllr T Nomvete  
Cllr V Roji  
Cllr S Budu  
Cllr N M Luqhide  
Cllr V N Xhobani  
Cllr S S N Meyi  
Cllr Z Mjanyelwa  
Cllr Z P Mzamane

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

2016

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### 47. Related parties (continued)

Related party transactions are at arms length.

Key management remuneration is disclosed in Note 29.

Councilor remuneration is disclosed in Note 30.

Apart from the remuneration and transaction disclosed above no further transactions occurred with councillors and key management.

### 48. Prior period errors

The financial statements have been prepared in accordance with GRAP on a basis consistent with the prior year. Where adjustments were done in the current annual financial statements, management considered the impact on the opening balances of the earliest comparative figures and these were adjusted accordingly.

The aggregate effect of the prior period adjustment on the comparative figures in the financial statements for the year ended 30 June 2016 is as follows.

The correction of the error(s) results in adjustments as follows:

Statement of Financial Performance	As previously reported	Prior Period Error	Reclassification	Restated as at 30 June 2015
<b>Revenue from exchange transactions</b>				
Interest received	29 498 968	(8 696)	-	29 490 272
Service charges	266 761 628	(18 731)	-	266 742 897
Rental of facilities and equipment	15 055 253	13 206	-	15 068 459
Other income	19 123 860	(6 569)	-	19 117 291
<b>Revenue from non-exchange transactions</b>				
Property rates	166 333 200	(6 851 519)	-	159 481 681
Government grants and subsidies	387 260 202	(2 941 552)	-	384 318 650
<b>Expenditure</b>				
Debt impairment	(25 637 571)	(41 600 396)	-	(67 237 967)
Depreciation	(287 473 581)	41 062 203	-	(246 411 378)
Impairment loss	(7 146 805)	(4 512 590)	-	(11 659 395)
Lease rentals on operating lease	(26 196 021)	(2 229)	-	(26 198 250)
Repairs and maintenance	(13 368 857)	(29 386)	-	(13 398 243)
Grants and subsidies paid	(29 614 009)	(3 547)	-	(29 617 556)
General expenses	(85 823 496)	(1 694 264)	-	(87 517 760)
Gain(loss) on disposal of assets	(52 728 750)	(6 141 248)	-	(58 869 998)
	<b>356 044 021</b>	<b>(22 735 318)</b>		<b>333 308 703</b>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 48. Prior period errors (continued)

Statement of Financial Position	As Previously Reported	Prior Period Error	Reclassification	Restated as at 30 June 2015
<b>Current Assets</b>				
Cash and cash equivalents	40 262 440	(75 686)	-	40 186 754
Receivables from exchange transactions	39 425 878	(11 684 620)	-	27 741 258
Receivables from non-exchange transactions	49 267 995	(36 789 820)	-	12 478 175
Inventories	8 814 153	(2 095 487)	-	6 718 666
<b>Non-current assets</b>				
Property, plant and equipment	2 211 024 053	(31 226 475)	-	2 179 797 578
<b>Current liabilities</b>				
Finance lease obligations	(9 255 764)	(645 843)	-	(9 901 607)
Payables from exchange transactions	(226 112 915)	1 623 919	-	(224 488 996)
VAT payable	(7 091 491)	(1 396 149)	-	(8 487 640)
<b>Non current liabilities</b>				
Finance Lease Obligations	(5 555 374)	645 843	-	(4 909 531)
<b>Net Assets</b>				
Accumulated surplus	(1 799 779 110)	81 644 318	-	(1 718 134 792)
	<b>300 999 865</b>	-	-	<b>300 999 865</b>



# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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Figures in Rand

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### 48. Prior period errors (continued)

#### Interest received

Longoutstanding items were cleared from the bank reconciliations

#### Service charges

Due to corrections of tariffs charged for the year ended 30 June 2015.

#### Rental of facilities and equipment

Correction of accrual for rental income.

#### Other income

Due to corrections of tariffs charged for fire brigade fees for the year ended 30 June 2015.

#### Property rates

Due to corrections of tariffs charged for property rates for the year ended 30 June 2015.

#### Government grants and subsidies

Due to the correction of VAT on financial assistance that was incorrectly allocated to grants and subsidies.

#### Debt impairment

The impairment calculation for 2015 was found to be incorrect and was reperformed.

#### Finance costs

A journal incorrectly discounting the value of a loan from LGCTA in 2014 was reversed.

#### Depreciation and amortisation

In 2014 depreciation was calculated on Community assets that were not initially capitalised.  
In 2015 a depreciation error of R44 million was corrected.  
Depreciation on WIP capitalised for projects completed prior to 30 June 2015 of R4 million.

#### Impairment loss

Infrastructure assets of R4 million were impaired after valuation by a technical expert.

#### Lease rentals on operating lease

Due to store issues that were not finalised in the general ledger.

#### Repairs and maintenance

Due to store issues that were not finalised in the general ledger.

#### Grants and subsidies paid

Due to store issues that were not finalised in the general ledger.

#### General expenses

Due to store issues that were not finalised in the general ledger.

#### Loss on disposal of non-current assets

Work in progress of R59 346 975 that could not be linked to any active projects was written off.

#### Fair value adjustments

Investment property was valued by an independent valuer and found to be undervalued by R20 million.

#### Cash and cash equivalents

Longoutstanding items were cleared from the bank reconciliations

#### Receivables from exchange transactions

The impairment calculation for 2015 was found to be incorrect and was reperformed.

#### Receivables from non-exchange transactions

The impairment calculation for 2015 was found to be incorrect and was reperformed.

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

#### Inventories

Inventory decreased to to the reallocation of asset items incorrectly moved to inventory.

#### Property, plant and equipment

Work in progress of R59 346 975 that could not be linked to any active projects was written off. In 2015 roads of R6,1 million that were replaced were disposed of and a depreciation error of R44 million was corrected. Infrastructure assets of R4 million were impaired after valuation by technical expert. Depreciation on WIP capitalised for projects completed prior to 30 June 2015 of R4 million.

#### Finance lease obligation

The split between current and non-current liabilities was found to be incorrect and was restated.

#### Payables from exchange transactions

Retentions decreased by R1,8 million due to retentions that will not be paid, recalculation of retentions for existing projects and retentions recognised to offset payments made on projects for which retentions were not previously raised.

#### VAT payable

VAT was adjusted for errors in the calculation of the VAT provision for debtors and creditors. R4,4 million VAT was reversed on state funeral expenses.

#### Other financial liabilities

A journal incorrectly discounting the value of a loan from LGCTA in 2014 was reversed.

### 49. Unauthorised expenditure

Opening Balance	497 166 312	354 440 360
Add: Unauthorised expenditure - current year	12 776 158	142 725 952
Less: Unauthorised expenditure approved by Council	(497 166 312)	-
	<b>12 776 158</b>	<b>497 166 312</b>

	Reason	Amount
<b>Current year</b>		
Bulk purchases	Due to increased prices from Eskom.	5 579 848
Contracted services	Due to increasing costs for collection of arrear debt.	272 881
Loss on disposal	Roads that were resurfaced during the year that had to be written off.	6 923 429
		<b>12 776 158</b>

### 50. Fruitless and wasteful expenditure

Opening Balance	343 371 421	338 580 996
Add: Fruitless and wasteful expenditure-current year	5 282 851	4 790 425
Less: Condoned by Council	(343 371 421)	-
	<b>5 282 851</b>	<b>343 371 421</b>

Fruitless and wasteful expenditure was incurred as a result of interest and penalties charged on late payments.

The Fruitless and wasteful expenditure has been referred to the Municipal Council to be written off in accordance with Section 32(2)(b) of the MFMA.

### 51. Irregular expenditure

Opening balance	497 893 114	365 690 453
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# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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### 51. Irregular expenditure (continued)

Add: Irregular Expenditure - current year  
Less: Amounts not recoverable (not condoned) - approved by Council for write-off

101 521 249	132 202 661
(497 893 114)	-
<b>101 521 249</b>	<b>497 893 114</b>

### Analysis of expenditure awaiting condonation per age classification

Current year  
Prior years

101 521 249	132 202 661
497 893 114	365 690 453
<b>599 414 363</b>	<b>497 893 114</b>

### Details of irregular expenditure – current year

Reason	Amount
The Tender Document and all attachments could not be located thus there is no proof that a valid procurement process was followed.	70 409 332
The newspaper advertisement could not be located therefore there is no proof that the bid was advertised.	1 849 440
The bid specifications committee was not established at the time the procurement took place.	29 262 478
	<b>101 521 250</b>

### 52. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance  
Current year subscription / fee  
Amount paid - current year

3 282 795	3 394 194
(3 282 795)	(3 394 194)

The irregular expenditure has been referred to the Municipal Council to be written off in accordance with Section 32(2)(b) of the MFMA.

#### Distribution losses

During the 2016 financial year the Municipality incurred distribution losses relating to electricity of 13.14% (2015: 9.92%).

#### Electricity distribution losses in units

Purchases  
Own use  
Pre-paid consumer electricity sold  
Conventional consumer billed

272 257 263	246 539 047
(7 444 867)	(5 644 800)
(94 680 754)	(93 517 815)
(134 370 945)	(122 917 059)
<b>35 760 697</b>	<b>24 459 373</b>

Units purchased during the year  
Units sold during the year

272 257 263	246 539 047
(236 496 566)	(222 079 674)

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

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

	<u>35 760 697</u>	<u>24 459 373</u>
Rand per unit	1,33	1,20
Cost in rands	47 387 319	29 317 798
<b>Audit fees</b>		
Opening balance	1 504 666	-
Current year subscription / fee	9 211 943	10 372 075
Amount paid - current year	(7 434 984)	(8 867 409)
	<u>3 281 625</u>	<u>1 504 666</u>
<b>PAYE and UIF</b>		
Opening balance	6 462 299	2 863 274
Current year subscription / fee	47 616 748	42 616 351
Amount paid - current year	(39 600 883)	(39 017 326)
	<u>14 478 164</u>	<u>6 462 299</u>

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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

#### Pension and Medical Aid Deductions

Opening balance	10 647 079	4 195 425
Current year subscription / fee	68 849 742	73 260 847
Amount paid - current year	(62 743 376)	(66 809 193)
	<b>16 753 445</b>	<b>10 647 079</b>

#### VAT

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr Ngcobo FRS	638	15 843	16 481
Cllr Mtirara MT	3 121	12 289	15 410
Cllr Knock R	1 192	9	1 201
Cllr Luqhide LM	1 118	2 104	3 222
Cllr Mapekula E T	375	1 472	1 847
Cllr Ngqonwa N	1 716	22	1 738
Cllr Nelani N T	5 000	86	5 086
	<b>13 160</b>	<b>31 825</b>	<b>44 985</b>

  

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr Ngcobo FRS	9 794	-	9 794
Cllr Mtirara MT	2 054	-	2 054
Cllr Tsipa KW	93	-	93
Cllr Knock R	5 130	-	5 130
Cllr Luqhide LM	581	-	581
Cllr Francis RS / Ngcobo LM	1 212	6 057	7 269
	<b>18 844</b>	<b>6 057</b>	<b>24 901</b>

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/ dispensed by the Accounting Officer and noted by Council.

### 53. Supply Chain Management Regulations

The expenses incurred listed below are instances of Supply Chain Management deviations reported to the council.

Incident	-	86 346
3 quotations not obtained	-	1 594 380
Sole supplier	-	346 431
Emergency procurement	-	742 588
Advertising in local newspaper	-	-

# King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

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Pauper burials-body already at parlour	-	87 911
Utilise all shos requested by rotating them, hence there is only one quote	-	315 290
	-	<b>3 172 946</b>

### 54. Bids awarded to employees in service of the state

In terms of section 45 of the Municipal SCM Regulations, any award above R2 000 to family of employees in the service of the state must be disclosed in the annual financial statements.

No conflicts of interest have been identified in the current year.

### 55. 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.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out under policies approved by the accounting officer and council. The municipality identifies, evaluates and hedges financial risks in close co-operation with the municipality's various departments. The accounting officer and council provides written principles for overall risk management, as well as written policies covering specific areas.

#### 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.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances equal their carrying balances as the effect of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 30 June 2016</b>				
Payables from exchange transactions	259 616 206	-	-	-
VAT payable	14 455 558	-	-	-
Other financial liabilities	9 228 269	31 962 542	-	-
Consumer deposits	15 718 570	-	-	-
Finance lease obligation	846 746	432 514	-	-
<b>At 30 June 2015</b>				
Payables from exchange transactions	224 263 277	-	-	-
VAT payable	5 715 366	-	-	-
Other financial liabilities	9 255 764	41 757 159	-	-
Consumer deposits	12 756 530	-	-	-
Finance lease obligation	10 704 766	4 909 531	-	-

Liquidity risk is mainly concentrated on the Trade and other payables balance.

The municipality does not have any collateral and /or credit enhancements that aid in the mitigation of the liquidity risks.

# King Sabata Dalindyebo Municipality

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### 55. Risk management (continued)

#### Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the municipality's investments, loans, receivables, and cash and cash equivalents.

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and limits exposure to any one counter-party in accordance with Council's approved investment policy.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis and assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Entity establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. Sales to retail customers are settled in cash or using major credit cards.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

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

	2016	2015
Financial instrument	12 501 813	40 186 754
Cash and cash equivalents	31 031 851	27 741 258
Receivables from exchange transactions	16 251 578	12 478 175
Receivables from non-exchange transactions		

The municipality does not hold any collateral in relation to the financial assets above.

#### Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates, affecting the municipality's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk.

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

# King Sabata Dalindyebo Municipality

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### 56. Financial instruments disclosure

#### Categories of financial instruments

2016

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	31 031 851	31 031 851
Trade and other receivables from non-exchange transactions	16 251 578	16 251 578
	<b>47 283 429</b>	<b>47 283 429</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	41 190 811	41 190 811
Trade and other payables from exchange transactions	259 616 206	259 616 206
	<b>300 807 017</b>	<b>300 807 017</b>

2015

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	27 741 258	27 741 258
Trade and other receivables from non-exchange transactions	12 478 175	12 478 175
Cash and cash equivalents	40 186 754	40 186 754
	<b>80 406 187</b>	<b>80 406 187</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	51 012 923	51 012 923
Trade and other payables from exchange transactions	224 263 277	224 263 277
	<b>275 276 200</b>	<b>275 276 200</b>

### 57. Events after the reporting date

The municipality is not aware of any events after 30 June 2016 that may have an impact on the financial statements or require disclosure.