



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

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

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General Information

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 Mtwa
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 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

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 86, 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*
Assets			
Current Assets			
Inventories	3	7 656 526	6 718 666
Receivables from exchange transactions	4	31 031 851	27 741 258
Receivables from non-exchange transactions	5	17 927 938	12 478 175
VAT receivable	6	12 708 503	-
Cash and cash equivalents	7	12 501 813	40 186 754
		81 826 631	87 124 853
Non-Current Assets			
Investment property	8	228 859 454	205 205 355
Property, plant and equipment	9	2 330 679 029	2 172 958 634
Intangible assets	10	1 317 251	1 694 387
Heritage assets	11	4 697 000	4 697 000
		2 565 552 734	2 384 555 376
Total Assets		2 647 379 365	2 471 680 229
Liabilities			
Current Liabilities			
Other financial liabilities	12	9 228 269	9 255 764
Finance lease obligation	13	843 746	10 704 766
Payables from exchange transactions	14	256 704 222	224 488 997
VAT payable	6	-	8 487 640
Consumer deposits	15	15 718 570	12 756 530
Unspent conditional grants and receipts	16	24 423 252	22 461 136
		306 918 059	288 154 833
Non-Current Liabilities			
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
		69 626 622	85 603 080
Total Liabilities		376 544 681	373 757 913
Net Assets		2 270 834 684	2 097 922 316
Reserves			
Revaluation reserve	18	383 988 031	384 413 531
Self insurance reserve	19	3 045 886	2 692 908
Accumulated surplus		1 883 800 767	1 710 815 877
Total Net Assets		2 270 834 684	2 097 922 316

* 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*
Revenue			
Revenue from exchange transactions			
Service charges	20	316 131 566	266 742 897
Rental of facilities and equipment	21	15 193 296	15 068 459
Licences and permits	22	13 979 592	13 618 392
Other income	23	13 911 831	19 117 291
Investment revenue	24	35 341 040	29 490 272
Total revenue from exchange transactions		394 557 325	344 037 311
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	180 579 393	159 481 681
Transfer revenue			
Government grants and subsidies	26	468 762 307	384 318 650
Financial assistance	27	5 111 655	178 325 110
Public contributions and donations	27	108 910 623	-
Fines, penalties and forfeits	28	1 025 516	967 496
Total revenue from non-exchange transactions		764 389 494	723 092 937
Total revenue	28	1 158 946 819	1 067 130 248
Expenditure			
Employee related costs	29	(328 907 200)	(310 826 620)
Remuneration of councillors	30	(22 687 264)	(20 853 933)
Depreciation and amortisation	31	(165 781 327)	(245 599 769)
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	35	(29 574 093)	(13 398 243)
Bulk purchases	36	(227 139 338)	(185 320 519)
Contracted services	37	(8 642 297)	(7 889 213)
Grants and Subsidies paid	38	(37 943 162)	(29 617 556)
General Expenses	39	(85 868 159)	(87 517 761)
Total expenditure		(1 007 528 019)	(1 022 409 128)
Operating surplus		151 418 800	44 721 120
Fair value adjustments	40	20 953 145	10 690 455
Gain on write-off of finance lease liability		4 669 473	-
Loss on disposal of non-current assets		(4 056 484)	(66 829 085)
		21 566 134	(56 138 630)
Surplus (deficit) for the year		172 984 934	(11 417 510)

* 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	1 805 220 704	2 192 663 493
Adjustments					
Correction of errors	-	-	-	(82 987 317)	(82 987 317)
Balance at 01 July 2014 as restated*	385 072 030	2 370 759	387 442 789	1 722 233 387	2 109 676 176
Changes in net assets					
Revaluation of assets	(658 499)	-	(658 499)	-	(658 499)
Insurance reserve movement	-	322 149	322 149	-	322 149
Net income (losses) recognised directly in net assets	(658 499)	322 149	(336 350)	-	(336 350)
Surplus for the year	-	-	-	(11 417 510)	(11 417 510)
Total recognised income and expenses for the year	(658 499)	322 149	(336 350)	(11 417 510)	(11 753 860)
Total changes	(658 499)	322 149	(336 350)	(11 417 510)	(11 753 860)
Opening balance as previously reported	384 413 531	2 692 908	387 106 439	1 799 607 673	2 186 714 112
Adjustments					
Correction of errors	-	-	-	(88 791 840)	(88 791 840)
Restated* Balance at 01 July 2015 as restated*	384 413 531	2 692 908	387 106 439	1 710 815 833	2 097 922 272
Changes in net assets					
Surplus for the year	-	-	-	172 984 934	172 984 934
Revaluation of assets	(425 500)	-	(425 500)	-	(425 500)
Movement In Self insurance	-	352 978	352 978	-	352 978
Total changes	(425 500)	352 978	(72 522)	172 984 934	172 912 412
Balance at 30 June 2016	383 988 031	3 045 886	387 033 917	1 883 800 767	2 270 834 684
Notes	18	19			

* See Note 48

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Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Notes	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Taxation		140 438 140	133 933 589
Receipts from Customers		331 250 731	297 011 445
Grants		469 048 063	295 092 283
Interest income		35 407 427	29 490 272
		<u>976 144 361</u>	<u>755 527 589</u>
Payments			
Employee costs		(353 302 288)	(338 200 669)
Suppliers		(395 420 573)	(336 204 982)
Finance costs		(14 181 971)	(16 289 899)
		<u>(762 904 832)</u>	<u>(690 695 550)</u>
Net cash flows from operating activities	43	<u>213 239 529</u>	<u>64 832 039</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(328 546 432)	(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	-
		<u>(216 767 321)</u>	<u>(157 464 186)</u>
Cash flows from financing activities			
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)
		<u>(24 157 149)</u>	<u>4 339 437</u>
Net decrease in cash and cash equivalents		<u>(27 684 941)</u>	<u>(88 292 710)</u>
Cash and cash equivalents at the beginning of the year		40 186 754	128 479 464
Cash and cash equivalents at the end of the year	7	<u>12 501 813</u>	<u>40 186 754</u>

* 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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	317 314 749	3 583 542	320 898 291	316 131 566	(4 766 725)	Ref to note 44
Rental of facilities and equipment	20 587 709	(5 597 031)	14 990 678	15 193 296	202 618	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	19 497 677	(8 110 353)	11 387 324	13 911 831	2 524 507	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
Total revenue from exchange transactions	416 909 188	(21 848 738)	395 060 450	394 557 325	(503 125)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	169 602 951	357 167	169 960 118	180 579 393	10 619 275	Ref to note 44
Transfer revenue						
Government grants & subsidies	501 254 573	78 603 506	579 858 079	468 762 307	(111 095 772)	Ref to note 44
Financial Assistance	-	5 111 655	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	(1 635 984)	965 225	1 025 516	60 291	Ref to note 44
Total revenue from non-exchange transactions	673 458 733	82 436 344	755 895 077	764 389 494	8 494 417	
Total revenue	1 090 367 921	60 587 606	1 150 955 527	1 158 946 819	7 991 292	
Expenditure						
Personnel	(344 746 007)	1 855 498	(342 890 509)	(328 907 200)	13 983 309	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)	(165 781 327)	63 300 742	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)	(17 717 214)	(23 117 214)	(14 181 970)	8 935 244	Ref to note 44
Lease rentals on operating lease	(44 410 743)	17 820 473	(26 590 270)	(24 408 439)	2 181 831	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	(32 876 542)	(1 145 948)	(34 022 490)	(29 574 093)	4 448 397	Ref to note 44
Bulk purchases	(224 883 103)	-	(224 883 103)	(227 139 338)	(2 256 235)	Ref to note 44
Contracted Services	(7 180 000)	(1 372 210)	(8 552 210)	(8 642 297)	(90 087)	Ref to note 44
Grants and Subsidies Paid	(47 014 950)	(3 875 243)	(50 890 193)	(37 943 162)	12 947 031	Ref to note 44
General Expenses	(104 103 506)	7 394 220	(96 709 286)	(85 868 159)	10 841 127	Ref to note 44
Total expenditure	(1 068 148 223)	(65 678 191)	(1 133 826 414)	(1 007 528 019)	126 298 395	
Operating surplus	22 219 698	(5 090 585)	17 129 113	151 418 800	134 289 687	
Fair value adjustments	-	-	-	20 953 145	20 953 145	Ref to note 44
Gain on write-off of finance lease liability	-	-	-	4 669 473	4 669 473	
Loss on disposal of non-current assets	-	1 253 746	1 253 746	(4 056 484)	(5 310 230)	Ref to note 44

King Sabata Dalindyebo Municipality

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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						
	-	1 253 746	1 253 746	21 566 134	20 312 388	
Surplus before taxation	22 219 698	(3 836 839)	18 382 859	172 984 934	154 602 075	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	22 219 698	(3 836 839)	18 382 859	172 984 934	154 602 075	

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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 48 "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

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

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 8 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

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.

Initial recognition and measurement

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.

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

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.

Subsequent measurement - Cost model

Property, plant and equipment other than land, buildings and community assets is carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated as it is regarded as having an infinite life.

Subsequent measurement - Fair Value model

Land, buildings and community assets are 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 eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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Accounting Policies

1.6 Property, plant and equipment (continued)

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 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.

Depreciation

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

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

Item	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
Infrastructure	
- Roads and paving	30 years
- Access roads	3-10 years
- Pedestrian malls	30 years
- Electricity	10 - 50 years
- Sewerage	15 - 20 years
Community	
- Buildings	30 - 130 years
- Recreational equipment	20 - 30 years
- Security	5 years
- Halls	130 years
- Libraries	130 years
- Parks and gardens	20 - 30 years
- Sport fields	20 - 30 years
Other property, plant and equipment	
- Other vehicles	5 years
- Other items of plant and equipment	7 - 10 years
- Landfill sites	4-30 years
- Fire engines	10 - 20 years
Bins and containers	5 years
Other leased assets	
- Motor vehicles	5-20 years
Laboratory equipment	5 - 7 years
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.

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Property, plant and equipment (continued)

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.

Impairment

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance

Derecognition

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.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

Initial recognition

Intangible assets are initially recognised at cost

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.

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Accounting Policies

1.7 Intangible assets (continued)

Subsequent measurement

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

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Amortisation and impairment

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

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

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

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	2 - 5 years

Derecognition

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

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.

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Accounting Policies

1.8 Heritage assets (continued)

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

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 determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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

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Accounting Policies

1.9 Financial instruments (continued)

- 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.

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

Receivables from exchange transactions
Receivables from non-exchange transactions
Cash and cash equivalents

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
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

Other financial liability - Long term
Other financial liability - Short term
Trade and other payables

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at fair value

Initial recognition

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Accounting Policies

1.9 Financial instruments (continued)

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.
- 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:

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Accounting Policies

1.9 Financial instruments (continued)

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.

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.

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

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

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.

Policies relating to specific financial instruments

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Financial instruments (continued)

Investments

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

All trade and other receivables are assessed at least annually for possible impairment. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Bank overdrafts and borrowings

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any differences between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy on borrowing costs.

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.

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Accounting Policies

1.10 Leases (continued)

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.

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.

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Accounting Policies

1.12 Construction contracts and receivables (continued)

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.

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification of a potential impairment

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.

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

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1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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 value added taxes.

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

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

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

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

Useful life is either:

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

Identification

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.

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

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

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

Redesignation

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

1.15 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.

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Accounting Policies

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.

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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.

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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.

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Accounting Policies

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.

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.

King Sabata Dalindyebo Municipality

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Accounting Policies

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 such as the .

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.

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.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised. Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

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

Government grants are recognised as revenue when : it is probable that the economic benefits or service potential associated with the transactions will flow to the entity. The amount of revenue can be measured reliably and to the extent that the conditions have been discharged and there has been a compliance with any restrictions associated with the grant.

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Rebates are granted to certain categories of rate payers, and these are deducted from revenue.

Transfers

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

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.

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

Fines

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

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

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Accounting Policies

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.

Revenue from public contribution is recognised when all conditions associated with the contribution have been met or where contribution is to finance property, plant and equipment or when such items of property, plant and equipment are brought into use. Where contributions have been received but the conditions have not been met, a liability is recognised.

Services in-kind

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

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.

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.

King Sabata Dalindyebo Municipality

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Accounting Policies

1.25 Comparative figures (continued)

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

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 Change in accounting policy, estimate and errors

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

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

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

1.32 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 2015/07/01 to 2016/06/30.

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.

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.33 Related parties (continued)

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:

- 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

2. New standards and interpretations

2.1 Standards and interpretations Issued and Effective

The following accounting standards have been issued and are effective. These have been adopted by the municipality during the current financial period and the annual financial statements have been prepared in accordance with these.

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 21	Impairment of non-cash generating assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budgeted Information
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets (replaces GRAP 102)
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 102	Intangible assets (replaced by GRAP 31)
GRAP 103	Heritage Assets

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 104	Financial Instruments
GRAP 105	Transfer of functions between entities under common control - Issued November 2010
GRAP 106	Transfer of functions between entities not under common control - Issued November 2010
GRAP 107	Mergers - Issued November 2010

The following Interpretations have been issued and are effective. These have been adopted by the municipality during the current financial period and the annual financial statements have been prepared in accordance with these.

IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in existing Decommissioning, Restoration and similar liabilities
IGRAP 3	Determining whether an arrangement contains a Lease
IGRAP 4	Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the restatement approach under the standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The limit on a defined benefit asset, Minimum funding requirements and their interaction
IGRAP 8	Agreements for the construction of Assets from Exchange Transactions
IGRAP 9	Distributions of non cash assets to Owners
IGRAP 10	Assets received from Customers
IGRAP 11	Consolidation - Special Purpose Entities
IGRAP 12	Jointly Controlled Entities - Non-Monetary Contributions
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the substance of transactions involving the Legal form of a lease
IGRAP 15	Revenue - Barter transactions Involving advertising Services
IGRAP 16	Intangible Assets - Website Costs

Where there is no equivalent standard of GRAP or IPSAS an International Financial Reporting Standard (IFRS) that is effective forms part of the GRAP reporting framework. This applies to the accounting standards below

IAS 12 (AC 102)	Income Taxes
IAS 24 (AC 126)	Related Party Disclosures
IAS 32 (AC 125)	Financial Instruments : Disclosure and presentation
IAS 39 (AC 133)	Financial Instruments : Recognition and measurement
IFRS 07 (AC 144)	Financial Instruments : Disclosures

2.2 Standards and interpretations issued, but not yet effective

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 following Standards of GRAP and / or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not early-adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

- GRAP 20 Related Party Disclosures - Issued June 2011
- GRAP 32 Service Concession Arrangements - Issued August 2013
- GRAP 108 Statutory receivables - Issued September 2013
- GRAP 109 Accounting by principals and agents - Issued July 2015

GRAP 20 - Related Party Disclosures

This standard requires the disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity. The precise impact of this on the financial statements of the municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

GRAP 32 - Service Concession Arrangements : Grantor

The objective of the standard is to prescribe the accounting for service concession arrangements by the grantor, a public entity. The municipality must assess whether it is a grantor i.e. has granted the right to use the service concession asset to the operator. This standard then requires the municipality to recognise an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if (a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must be provided and at what price, and (b) the grantor controls through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement. Where a service concession asset is recognised, the grantor shall also recognise a liability at the same amount as the service concession asset. The precise impact of this on the financial statements of the municipality is still being assessed but it is not expected to be significant. This standard does not yet have an effective date.

GRAP 108 - Statutory Receivables

This standard requires the entity to recognise any receivables that arise from legislation, supporting legislations, or similar means and requires settlement by the entity in cash or another financial asset as statutory receivables. The municipality shall recognise statutory receivables using the standard of GRAP on revenue from exchange transactions if the transaction is an exchange transaction or the standard of GRAP on revenue from non exchange transactions if it is a non exchange transaction. Where the transaction is not within the scope of the above, the receivable must be recognised when the definition of an asset is met. The precise impact of this on the financial statements of the municipality is still being assessed but it is not expected to be significant. This standard does not yet have an effective date.

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 precise impact of this on the financial statements of the municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

The following interpretation has been issued by the Accounting Standards Board but has not been given an effective date by the Minister of Finance. The entity has not early-adopted this new interpretation, but has referred to it for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

- IGRAP 17 Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset - Issued August 2013

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 17 - Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. The impact of this on the financial statements is not expected to be significant. This interpretation does not yet have an effective date

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

3. Inventories

Consumables Stores	6 546 891	3 293 356
Electrical Equipment	1 109 635	3 425 310
	7 656 526	6 718 666

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)
	31 031 851	27 741 258

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

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	118 587 486	96 874 950
Penalties and interest	40 795 190	30 769 147

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

Electricity -Ageing

Current	18 751 185	14 744 274
31 - 60 days	6 063 680	6 454 708
61 - 90 days	1 922 763	3 238 026
91 - 120 days	2 655 714	2 758 494
> 120 days	9 216 747	6 212 665
Penalties and interest	2 171 652	1 407 857
	40 781 741	34 816 024

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
	89 095 812	79 001 330

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
	99 301 744	87 255 552

Sundry debtors- Ageing

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

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
	200 444 710	175 769 749

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

4. Receivables from exchange transactions (continued)

Summary of debtors by customer classification	Consumers	Industrial/ Commercial	Government	Total
as at 30 June 2016				
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
Less provision for impairment	(157 083 115)	(43 361 595)	-	(200 444 710)
	3 874 626	14 662 376	9 263 705	27 800 707

Summary of debtors by customer classification	Consumers	Industrial/ Commercial	Government	Total
as at 30 June 2015				
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
Less provision for impairment	(142 595 244)	(33 174 505)	-	(175 769 749)
	2 618 125	12 766 032	10 087 172	25 471 329

5. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	2 065 385	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)
	17 927 938	12 478 175

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	17 927 938	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:

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

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 184 904 134 (2015: R 147 684 235) were impaired and provided for.

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

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

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

Rates - Ageing

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

Other (old balances) - Ageing

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

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
	184 904 134	147 684 235

6. VAT receivable (payable)

VAT receivable (payable)	12 708 503	(8 487 640)
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King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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
	12 501 813	40 186 754

Pledged as security

The municipality has ceded an investment equivalent to the principal loan amount plus interest calculated up to September 2003 in favour of the DBSA loan 10875/102.

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

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand					2016	2015
7. Cash and cash equivalents (continued)						
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
ABSA Call Acc ISUP Joe Slove 9264255581	-	-	14 270 370	-	-	14 270 370
ABSA Call Acc ISUP Maydene 9264472915	-	-	6 084	-	-	6 106
ABSA Call Acc 9264472541	-	-	2 774 491	-	-	2 784 182
Investec Bank Invest 1100456924	219 313	212 956	206 644	219 313	212 992	206 645
ABSA Call Acc KSD Election 9260118662	2 671	251 467	251 446	2 721	252 393	252 966
ABSA Call Acc KSD Intervention 4061496125	-	30 020	30 135	-	30 091	30 144
ABSA Call MSG 9097169945	54 395	53 893	53 893	54 395	54 092	54 083
ABSA Call Infrastructure Skills Development 9285398815	-	-	930 232	-	-	930 232
ABSA Call Mqanduli Milling 9118441412	3 679	3 728	3 738	3 676	3 709	3 737
ABSA Call MSIG 9153705564	-	-	212 486	-	-	213 757
ABSA Call 9279137350	-	-	2 179 232	-	-	2 186 845
Maydene Farm Ext						
ABSA call Rural Planning 9260110101	3 436	449 277	468 034	3 492	450 906	469 633
ABSA Call UphuhlisoLwethu 9260112632	5 310	167 114	179 120	5 334	167 729	179 751
ABSA Call Organogram Dev 9260110397	5 888	294 477	294 477	5 958	295 562	295 522
ABSA Call Library 9279137211	-	-	1 034 561	-	-	1 038 544
ABSA Call Mqanduli Middle Income 9095799392	5 528	333 652	333 651	5 528	334 886	334 829
ABSA Call Light The Pilot 9260109699	8 082	236 947	236 946	8 152	237 819	237 781
FNB Cheque 62471836513	3 570 268	248 080	1 027	3 600 936	92 609	(12 137)
FNB Call 62480366345 DOE Electrification	16 268	3 573 255	-	16 268	3 573 255	-
FNB Call 62480370031 FMG	2 280	67 349	-	2 280	67 349	-
FNB Call 62480368838 MIG Account UCCMIP	13 052	1 000	-	13 052	1 000	-
FNB Call 62480371592 MSIG	3 922	205 060	-	3 922	205 060	-
FNB Call 62480372863 Library	3 644	1 070 313	-	3 644	1 070 313	-
FNB Call 62486520151	2 896	360 774	-	2 896	360 774	-
Infrastructure Skills Dev						
FNB Call 62500280516 LED Support	1 686	106 674	-	1 686	106 674	-
FNB Call 62500281936 Chamber Of Mines	1 842	1 241 907	-	1 842	1 241 907	-
FNB Call 62504407801 Ngangelizwe Urban Ren	2 797	2 788 938	-	2 797	2 788 938	-
FNB Call 62504409477 Disaster Management	5 905	2 277 899	-	5 905	2 277 899	-
FNB Call 62504410383 Fire Station	4 330	2 340 938	-	4 330	2 340 938	-
FNB Call 62504411315 ISUP Phola Park	6 755	2 732 731	-	6 755	2 732 731	-
FNB Call 62504412066 Maydene ISUP	6 300	6 237	-	6 300	6 237	-
FNB Call 62504413741 Transkei United Dairies	23 712	27 066	-	23 712	27 066	-

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand			2016		2015	
7. Cash and cash equivalents (continued)						
FNB Call 62504414608	34 730	125 281	-	34 730	125 281	-
Maydene Farm Extension						
FNB Call 62504417420	40 109	47 654	-	40 109	47 654	-
Zimbane Heights						
FNB Call 62504418022 ISUP Hillcrest	43 482	33 357	-	43 482	33 357	-
FNB Call 62504444639 DOT Taxi Rank	8 105	7 263 487	-	8 105	7 263 488	-
FNB Call 62505830811 ISUP Joe Slovo	9 638	412 298	-	9 638	412 298	-
FNB Call 62521207911 Electricity Demand Side	644	146 420	-	644	146 420	-
FNB Call 62523941070 New Brighton	10 590	10 473	-	10 590	10 473	-
FNB Call 62523942408 KEI Rail	10 590	10 474	-	10 590	10 473	-
FNB Call 74486524158	-	1	-	-	-	-
FNB Call 62557024785 H S Graduates	29 816	-	-	29 816	-	-
FNB 62559404092 Asset Financing	2 856	-	-	2 841	-	-
Total	12 458 528	40 327 221	128 043 771	12 500 763	40 185 705	123 214 869

8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
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.

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

8. Investment property (continued)

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

Amounts recognised in surplus and deficit for the year

Rental revenue from investment property	1 449 231	1 455 919
Fair value adjustments recognised in surplus or deficit	20 953 145	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	1 961 625 132	(1 086 704 078)	874 921 054	1 967 564 912	(1 106 019 166)	861 545 746
Community	468 166 690	(47 192 089)	420 974 601	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	493 237 557	-	493 237 557	344 361 625	-	344 361 625
Specialised vehicles	43 058 094	(13 924 690)	29 133 404	71 988 319	(40 491 676)	31 496 643
Total	3 524 671 033	(1 193 992 004)	2 330 679 029	3 373 550 623	(1 200 591 989)	2 172 958 634

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	861 545 746	48 575 029	(1 562 357)	81 692 052	(115 002 973)	(326 443)	874 921 054
Community	436 819 060	1 117 940	-	3 895 450	(20 857 849)	-	420 974 601
Other property, plant and equipment	6 690 829	1 175 680	(16 537)	-	(2 714 225)	-	5 135 747
Work In Progress	344 361 625	234 463 434	-	(85 587 502)	-	-	493 237 557
Specialised vehicles	31 496 643	10 996 419	(2 240 508)	-	(11 119 150)	-	29 133 404
	2 172 958 634	328 546 432	(5 095 402)	-	(165 404 192)	(326 443)	2 330 679 029

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Write-offs	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	1 017 654 006	3 088 107	(14 100 335)	57 782 120	-	(143 270 025)	(59 608 127)	861 545 746
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	(20 434)	-	-	(2 983 520)	-	6 690 829
Work In Progress	374 998 415	143 599 058	(50 755 475)	(64 133 398)	(59 346 975)	-	-	344 361 625
Specialised vehicles	35 126 712	7 162 010	-	-	-	(10 792 079)	-	31 496 643
	2 399 754 544	156 479 077	(66 857 744)	-	(59 346 975)	(197 462 141)	(59 608 127)	2 172 958 634

Pledged as security

The municipality has ceded to DBSA all rights, title and interest to residential properties owned by it valued at approximately R12 million in relation to the DBSA loan 13335/201.

The Munitata building, Erf 9441, 47 to 49, was ceded to PIC as security for a loan.

Assets subject to finance lease

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

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Figures in Rand 2016 2015

9. Property, plant and equipment (continued)

Included under specialised motor vehicles are 64 vehicles which are under finance lease from Aristopix (Pty) Ltd with a total carrying amount of R0 (2015: R8 605 86). Refer to Note 13 "Finance Lease Obligation" for additional information.

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 R1 279 260 (2015: R1 618 76).

Revaluations

The effective date of the revaluations was 30 June 2015. Revaluations were performed by independent valuer, Mr Kwasi Agyaben-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
11. Heritage assets (continued)		
Reconciliation of heritage assets 2016		
	Opening balance	Total
Recreational parks	4 697 000	4 697 000
Reconciliation of heritage assets 2015		
	Opening balance	Total
Recreational parks	4 697 000	4 697 000
12. Other financial liabilities		
At amortised cost		
Annuity Loan DBSA	23 937 370	27 703 811
DBSA loan 61001245 is redeemable in March 2018 and borrowing rate is 15%		
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.		
	41 190 811	51 012 923
Non-current liabilities		
Designated at fair value	-	-
Annuity Loan - DBSA	21 209 099	24 468 409
Annuity Loan - PIC	10 753 443	17 288 750
	31 962 542	41 757 159
Current liabilities		
Designated at fair value	-	-
Annuity Loan DBSA	2 728 271	3 235 402
Annuity Loan - PIC	6 499 998	6 020 362
	9 228 269	9 255 764

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

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 R0 (2015: R13 690 166) and attracts an average interest rate of 0% (2015: 51%) 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 279 260 (2015: R1 924 132) and attracts an average interest rate of 18%.

14. Payables from exchange transactions

Trade payables	104 550 324	105 498 221
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
	<u>256 704 222</u>	<u>224 488 997</u>

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

Figures in Rand	2016	2015
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
National: Department of Energy- Electrification Projects	1 559 320	86 430
Grant Admin Development	15 608	15 979
Provincial: Municipal Infrastructure Grant	12 060	-
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
FMG	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
	24 423 252	22 461 136

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)	-
Reclassification to sundry debtors	1 676 360	-
Interest payover to Human Settlements	(377 737)	(1 163 665)
Interest Received	279 279	605 538
	24 423 252	22 461 136

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Reductions	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
	38 936 390	(2 334 153)	626 329	37 228 566

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

17. Provisions (continued)

Reconciliation of provisions - 2015

	Opening Balance	Reductions	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
	45 456 505	(533 000)	(6 619 509)	632 394	38 936 390

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 8.76% per annum. The assumed discount rate used at the previous valuation, 30 June 2015, was 9.08% 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 loss	(3 458 153)	(2 046 000)
Bonus Paid	(2 276 000)	(1 530 000)
	15 201 847	17 536 000

18. Revaluation reserve

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

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
	3 045 886	2 692 908

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
20. Service charges		
Sale of electricity	281 197 609	239 978 170
Refuse removal	34 933 957	26 764 727
	316 131 566	266 742 897
21. Rental of facilities and equipment		
Premises		
Premises	13 129 662	13 077 294
Facilities and equipment		
Rental of facilities	428 607	302 073
Rental of equipment	1 635 027	1 689 092
	2 063 634	1 991 165
	15 193 296	15 068 459
22. Licences and permits		
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
	13 979 592	13 618 392
23. Other Income		
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	-
	13 911 831	19 117 291
24. Investment revenue		
Interest received		
Interest from investments and bank	3 340 930	4 398 838
Interest charged on trade and other receivables	32 000 110	25 091 434
	35 341 040	29 490 272

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
25. Property rates		
Rates received		
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
	180 579 393	159 481 681
Valuations		
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
	18 182 943 000	17 366 723 500

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

Operating grants

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
	264 689 176	220 076 946

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand 2016 2015

26. Government grants and subsidies (continued)

Capital grants

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

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	202 651 584	158 344 790
Unconditional grants received		
Equitable Share	251 210 000	206 246 000
SETA	876 526	497 963
Expanded Public Program Grant	1 471 000	1 529 000
VAT Operational	133 793	681 555
VAT Capital	12 152 826	16 023 363
Various grants	266 578	995 979
	468 762 307	384 318 650

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)	-
	5 806 574	3 348 266

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)	-
	429	106 429

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)

Grant Admin Development

Balance unspent at beginning of year	15 979	430 000
Current-year receipts	-	-
Conditions met - transferred to revenue	(371)	(414 021)
	15 608	15 979

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

DOHS: Community Multipurpose Centre Ngangelizwe

Balance unspent at beginning of year	10	1 864 144
Interest	-	59 680
Transfer to Maydene	-	(1 923 814)
	10	10

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

Uphuhliso Lwethu

Balance unspent at beginning of year	167 114	178 503
Conditions met - transferred to revenue	(161 834)	-
Other	-	(11 389)
	5 280	167 114

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

Provincial: MTAB Grant

Balance unspent at beginning of year	514 265	514 265
Current-year receipts	-	-
	514 265	514 265

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

Municipal Infrastructure Grant

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)
Reclassification to sundry debtors	1 676 360	-
	12 060	-

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
26. Government grants and subsidies (continued)		
National: Financial Management Grant		
Current-year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 224 031)	(1 600 000)
	450 969	-
Conditions still to be met - remain liabilities (see note 16).		
Provincial : Intervention Grant		
Balance unspent at beginning of year	-	31 081
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(31 081)
	-	-
Municipal Systems Improvement Grant		
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)
	(12 060)	105 421
Conditions still to be met - remain liabilities (see note 16).		
Provincial: Rural planning & survey		
Balance unspent at beginning of year	449 250	449 250
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	449 250	449 250
Conditions still to be met - remain liabilities (see note 16).		
Provincial : Light the Pilot Media		
Balance unspent at beginning of year	236 947	236 947
Current-year receipts	-	-
	236 947	236 947
Conditions still to be met - remain liabilities (see note 16).		
Provincial: KSD Elections- Road Maintenance		
Balance unspent at beginning of year	251 720	251 720
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(253)	-
	1 251 467	251 720
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
26. Government grants and subsidies (continued)		
Department of Housing and Local Government		
Balance unspent at beginning of year	333 652	333 652
Current-year receipts	-	-
	333 652	333 652
Conditions still to be met - remain liabilities (see note 16).		
Library Grant		
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)
	640 286	1 060 496
Conditions still to be met - remain liabilities (see note 16).		
Provincial: Urban Renewal Grant		
Balance unspent at beginning of year	2 779 830	3 179 064
Conditions met - transferred to revenue	-	(399 234)
	2 779 830	2 779 830
Conditions still to be met - remain liabilities (see note 16).		
Infrastructure Skills Development		
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)
	54 685	357 422
Conditions still to be met - remain liabilities (see note 16).		
Organogram Development Grant		
Balance unspent at beginning of year	294 477	294 477
Conditions still to be met - remain liabilities (see note 16).		
Department of Transport		
Balance unspent at beginning of year	7 236 277	7 236 277
Conditions still to be met - remain liabilities (see note 16).		
Provincial : Disaster Management Grant		
Balance unspent at beginning of year	2 270 515	2 300 889
Conditions met - transferred to revenue	(734 377)	(30 374)
	1 536 138	2 270 515
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
26. Government grants and subsidies (continued)		
Provincial Fire Station Refurbishment Grant		
Balance unspent at beginning of year	2 333 450	2 333 450
Conditions met - transferred to revenue	(1 612 880)	-
	720 570	2 333 450
Conditions still to be met - remain liabilities (see note 16).		
Provincial:Municipal Support Grant		
Balance unspent at beginning of year	53 893	53 893
Conditions still to be met - remain liabilities (see note 16).		
LED Support		
Balance unspent at beginning of year	106 411	229 275
Current-year receipts	-	-
Conditions met - transferred to revenue	(104 743)	(122 864)
	1 668	106 411
Conditions still to be met - remain liabilities (see note 16).		
LLR Chamber of Mines		
Balance unspent at beginning of year	352 882	888 252
Conditions met - transferred to revenue	-	(535 370)
	352 882	352 882
Conditions still to be met - remain liabilities (see note 16).		
National: Department of Energy - Electrification Projects		
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)
	1 559 320	86 430
Conditions still to be met - remain liabilities (see note 16).		
Human Settlements - Graduates		
Current-year receipts	842 777	-
Conditions met and transferred to revenue	(714 002)	-
	128 775	-
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	-
	114 022 278	178 325 110

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
	1 158 946 819	1 067 130 248

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
	394 557 325	344 037 311

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

Taxation revenue

Property rates	180 579 393	159 481 681
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Transfer revenue

Government grants & subsidies	468 762 307	384 318 650
Financial Assistance	5 111 655	178 325 110
Public contributions and donations	108 910 623	-
Fines, Penalties and Forfeits	1 025 516	967 496
	764 389 494	723 092 937

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
29. Employee related costs		
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
	328 907 200	310 826 620
Remuneration of municipal manager		
Annual Remuneration	310 742	71 665
Contributions to UIF, Medical and Pension Funds	446	297
Other	4 804	2 140
	315 992	74 102
Remuneration of chief finance officer - N. Ntshanga		
Annual Remuneration	-	503 363
Car Allowance	-	157 392
Contributions to UIF, Medical and Pension Funds	-	59 500
Other	-	133 083
	-	853 338
Remuneration of chief finance officer - E Jiholo		
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	-
	1 297 389	-
Remuneration of Director: Technical Services		
Annual Remuneration	1 209 334	1 154 416
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Other	81 762	81 698
	1 292 881	1 237 899
Remuneration of Director: Community Services		
Annual Remuneration	1 185 871	1 120 977
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Other	82 987	40 109
	1 270 643	1 162 871

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
29. Employee related costs (continued)		
Remuneration of Director: Corporate services		
Annual Remuneration	1 100 652	416 849
Back pay	112 091	-
Contributions to UIF, Medical and Pension Funds	1 785	892
Other	56 965	-
	1 271 493	417 741
Remuneration of Director : Public Safety		
Annual Remuneration	1 100 652	531 013
Backpay	112 091	-
Contributions to UIF, Medical and Pension Funds	1 785	-
Other	47 724	12 729
	1 262 252	543 742
Remuneration of Director : Human Settlements		
Annual Remuneration	1 216 816	1 159 815
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Other	29 642	207 119
	1 248 242	1 368 718
Remuneration of Director: Local Economic Development		
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
	1 239 033	1 147 027
30. Remuneration of councillors		
Executive Mayor	851 302	849 217
Chief Whip	658 225	591 234
Speaker	622 986	621 880
Councillors	20 554 751	18 791 602
	22 687 264	20 853 933
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor and the Speaker of the Council have the use of separate Council owned vehicles for official duties.		
31. Depreciation and amortisation		
Property, plant and equipment	165 781 327	245 599 769
32. Impairment loss		
Impairment of assets		
Property, plant and equipment	326 443	11 659 395

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
33. Finance costs		
Borrowings	8 899 119	11 499 477
Trade and other payables	5 282 851	4 790 425
	14 181 970	16 289 902
34. Debt impairment		
Impairment of debtors	62 068 327	67 237 967
35. Repairs and maintenance		
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
	29 574 093	13 398 243
36. Bulk purchases		
Electricity	227 139 338	185 320 519
37. Contracted services		
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
	8 642 297	7 889 213
38. Grants and Subsidies paid		
Other subsidies		
Other grants	933 717	970 605
Council ward committees	3 928 000	3 662 015
Municipal systems improvement grant	1 023 743	929 896
SETA	476 816	639 660
Bursaries	503 261	-
Public expense	1 569 342	991 755
Indigent Subsidy	17 390 813	10 558 243
Uphuhliso Lwethu	161 834	9 990
Expanded Public works program	1 730 614	1 231 798
Department of Local Government	796 546	34 688
Electricity demand side management	-	2 641 395
Infrastructure skills development grant	2 880 466	3 719 874
Finance Management Grant	1 909 621	1 486 169
Library grant	1 874 328	458 586
Ward based budgeting	2 764 061	2 282 882
	37 943 162	29 617 556

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
39. General expenses		
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	4 572 637	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 Sites	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
	85 868 159	87 517 761
40. Fair value adjustments		
Investment property (Fair value model)	20 953 145	10 690 455
41. Auditors' remuneration		
Fees	8 007 208	9 447 041
42. Operating lease		
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.		
Operating Lease Obligation		
Payable within 12 months	294 629	308 811
Payable within 2 - 5 years	6 017	91 148
	300 646	399 959

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
43. Cash generated from operations		
Surplus (deficit)	172 984 934	(11 417 510)
Adjustments for:		
Depreciation and amortisation	165 781 327	245 599 769
Gain on write-off of finance lease liability	(4 669 473)	-
Loss on sale of assets and liabilities	4 056 484	66 829 085
Fair value adjustments	(20 953 145)	(10 690 455)
Impairment deficit	326 443	11 659 395
Debt impairment	62 068 327	67 237 967
Movements in provisions	(1 707 824)	(6 520 115)
Other non-cash items - Donations	(108 910 624)	(178 325 110)
Other non-cash items	66 380	-
Changes in working capital:		
Inventories	(937 860)	3 867 336
Receivables from exchange transactions	(3 290 593)	14 210 846
Movement in provision for debt impairment	(62 068 327)	(67 237 967)
Receivables from non-exchange transactions	(5 449 763)	8 975 939
Payables from exchange transactions	32 215 230	34 540 913
VAT	(21 196 143)	(26 085 652)
Unspent conditional grants and receipts	1 962 116	(89 226 367)
Consumer deposits	2 962 040	1 413 965
	213 239 529	64 832 039

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

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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	141 130 627	119 120 405
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Total capital commitments

Already contracted for but not provided for	141 130 627	119 120 405
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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

Figures in Rand	2016	2015
46. Contingencies (continued)		
<ul style="list-style-type: none">its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable, andthose contingent liabilities that arise because the venturers is contingently liable for the liabilities of the other venturers of a joint venture.		
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	-
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	-
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	-
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	-
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	-
Masiza Dudumayo // KSD Municipality Claim for damages allegedly suffered due to alleged illegal withholding of councillor's salaries and allowances	300 000	-
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	2 219 340	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.	8 931 148	300 000
Nomthunzi Simane // KSD Municipality Claim for damages in respect of illegal, unlawful arrest and detention and contumelia. The matter is still pending.	150 000	-
S & F Construction Intsimi Yemfene// KSD Municipality Claim for payment in respect of services allegedly rendered. Pending/dormant – plaintiff appears to have lost interest, at this stage, letting the sleeping dogs lie approach being applied.	-	384 921
Mzuvukile Jazi & 15 Others // KSD Municipality Volunteers claiming to be paid salaries alleging they were promised employment and employed. Matter still pending	-	3 200 000
Babalwa Qomoyi and 9 others// KSD Municipality Application for an order for the release of an impounded vehicles. Matter being appealed as the judgment granted does not grant certainty and finality.	-	675 000
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.	2 310 000	-

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
46. Contingencies (continued)		
Meyisi Xatula // Municipality Claim for unlawful arrest and detention. The matter is still pending.	600 000	-
Buyisile Jobe // KSD Municipality Claim for damages arising out of alleged unlawful arrest and detention.	280 000	-
Musa Lonwabo Kwetana // KSD Municipality Alleged assault by the "members of the municipality's law enforcement officers". The matter is still pending.	110 000	-
Naledi Mgwebi // KSD Municipality Claim for damages for alleged botched midwifery procedures. The matter is still pending.	1 100 000	-
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.	155 194	-
Zamile Derrick Ntshoyi // KSD Municipality Alleged unlawful arrest, detention and loss of money. The matter is still pending.	295 000	-
Fanekhaya Ngxola // KSD Municipality Claim for damages for alleged unlawful arrest, detention, deprivation of liberty and humiliation. The matter is still pending.	500 000	-
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.	5 008 000	-
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.	2 774 655	-
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.	305 000	-
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.	750 000	-
Zoleka Tamia Mgogoshe // KSD Claim for damages allegedly suffered due to falling in a dug hole allegedly left uncovered. The matter is still pending.	550 000	-
Zondwa Lutshete // KSD Claim for damages for alleged unlawful, wrongful arrest and detention. Matter ripe for hearing. Waiting for a court date.	490 000	-
Mpendulo Vava // KSD Claim for damages for alleged unlawful wrongful arrest and detention. Matter ripe for hearing. Waiting for a court date.	490 000	-
Welekazi Sokuthu // KSD Municipality Claim for alleged unlawful arrest and detention. The matter is still pending.	185 000	-
Thobile Ngcame // KSD Municipality & Others Motor vehicle accident. Insurance repudiated liability. The matter is still pending.	754 000	-

King Sabata Dalindyebo Municipality

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Notes to the Financial Statements

Figures in Rand	2016	2015
46. Contingencies (continued)		
Vuyolwethu Fihla // KSD Municipality Claim for damages for alleged unlawful, wrongful arrest and detention. The matter is still pending.	511 000	-
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.	430 000	250 000
Lwandiso Menze & Others // KSD Municipality* Alleged unlawful arrest and detention. The matter is still pending.	2 000 000	-
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.	50 000	-
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	-
Wandile Macingwana // KSD Claim for damages resulting from alleged illegal stripping of an impounded kombi. The matter is being defended.	360 000	-
Sibongile Ratshalala // KSD Municipality and Chief Traffic Officer, KSD Claim for loss of income. The matter is still pending.	409 000	-
Amanda Bekezulu // KSD Municipality Claim for alleged unlawful arrest and detention. The matter is still pending and being defended.	130 000	-
Mzikayifani Gumede // KSD Claim for damages in respect of alleged assault by a municipal traffic officer. Defended and still pending.	250 000	-
Jabu BV Njomane // KSD Claim for monies due as result of an agreement allegedly reached among the parties. Defended and still pending.	2 664 309	-
Sibonelelo Mavume // KSD Municipality Claim for damages arising out of alleged illegal impounding of vehicle. The matter is being defended.	270 000	-
KSD // Taylor & Taylor & Others Judgement against the municipality rescinded and set aside, municipality granted leave to defend the case. The matter is still pending.	150 000	-
Claims relating to employment disputes Various claims from employees relating to amounts due, unlawful dismissal. Matters still pending	-	2 654 968
M Nondlwana // KSD Claim for damages arising out of alleged shooting incident by municipal law enforcement or traffic polic. The matter is still pending.	2 300 000	-

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
46. Contingencies (continued)		
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. The matter is still pending.	400 000	-
Monwabisi Gabada & Others // KSD Claim for overtime. The matter is still pending.	150 000	-
Lehlohono Mokoena & 13 others// KSD & Another** Claim for damages for alleged unlawful, wrongful arrest and detention.	12 700 000	-
Musa Hickson Gqwaru // KSD MVA Claim repudiated by the insurance.	75 483	-
Big Blue Marketing CC // KSD* Claim for specific performance. The matter is still pending	1 600 000	-
African Bulk Earthworks (Pty) Ltd // KSD** Claim for compound interest allegedly omitted / neglected during the initial stages. The matter is still pending.	5 124 846	30 000 000
Adrian Howard Bell / Mfihlo & Others Interdicting the municipality from disconnecting electricity. The matter is still pending.	250 000	-
Siyabonga Abednigo Fikizolo // KSD Municipality Claim for damages arising out of the alleged unlawful arrest and detention. The matter is still pending.	400 000	-
Jabulani Petros Mdlalose // KSD municipality Claim for alleged unlawful arrest and detention. The matter is still pending.	400 000	-
KSD Municipality // Erf 778 (UMT) Property cc and others To recover monies illegally attached. The matter is still pending.	250 000	-
Various claims for damages against the municipality Various claims instituted against the municipality. Most cases still pending and some pending settlement negotiations	-	16 881 794
Sikhumbuzo Mange // KSD Municipality* Claim for underpayment. The matter is still pending.	257 028	-
KSD municipality// Unknown Persons unlawfully occupying ERF 937, 926, 14817 & 14818 Eviction of land invaders. Demolition carried out. Matter is now subject of appeal before the Constitutional Court.	-	500 000
Big Blue Marketing t/a Ikwezi Computers // KSD* Damages for alleged breach of contract. The matter is still pending.	576 117	-
Cape Gannet Properties 118 (Pty) Ltd // KSD** Breach of contract. Pending mediation date.	265 472 026	-
Proud Heritage Properties (Pty) Ltd // KSD** Breach of contract. Pending mediation date.	163 476 883	-

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Notes to the Financial Statements

Figures in Rand	2016	2015
46. Contingencies (continued)		
KSD Municipality // Illegal Occupants, remainder of ERF 912* Eviction proceedings. The matter is still pending.	200 000	-
KSD Municipality // Makhubu Consortium Eviction proceedings. Court papers are being prepared.	150 000	-
Adrian Howard Bell // KSD Interdict and contempt. The matter is still pending.	150 000	-
KSD / Qotoyi Return of a motor vehicle allegedly unlawfully disposed. The matter is still pending.	50 000	-
KSD Municipality // Lwandile Nyebevu Application for reinstatement after employee dismissed and for a higher post. The matter is still pending.	280 000	-
Jerome Frank Heunis & Others // KSD Municipality** Claim for damages allegedly suffered. The matter is still pending.	6 300 000	-
Sibonele Mavume // KSD Claim for loss of income. The matter is still pending.	179 000	-
	508 523 029	55 146 683

King Sabata Dalindyebo Municipality

Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
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47. Related parties

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

Related party transactions

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
	<hr/>	<hr/>
	-	760 316

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 Ndlela

Key management

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

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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 Ndlabongela
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 P Mzamane

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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
Revenue from exchange transactions				
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
Revenue from non-exchange transactions				
Property rates	166 333 200	(6 851 519)	-	159 481 681
Government grants and subsidies	387 260 202	(2 941 552)	-	384 318 650
Expenditure				
Debt impairment	(25 637 571)	(41 600 396)	-	(67 237 967)
Depreciation	(287 473 581)	41 873 812	-	(245 599 769)
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)	(1 694 265)	-	(87 517 761)
Loss on disposal of assets	(52 728 750)	(14 100 335)	-	(66 829 085)
	356 044 021	(29 882 797)	-	326 161 224

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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
Current Assets				
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
Non-current assets				
Property, plant and equipment	2 211 504 023	(38 373 997)	-	2 173 130 026
Current liabilities				
Finance lease obligations	(10 058 923)	(645 843)	-	(10 704 766)
Payables from exchange transactions	(226 112 915)	1 623 919	-	(224 488 996)
VAT payable	(7 091 491)	(1 396 149)	-	(8 487 640)
Non current liabilities				
Finance Lease Obligations	(5 555 374)	645 843	-	(4 909 531)
Net Assets				
Accumulated surplus	(1 799 779 110)	88 791 840	-	(1 710 987 270)
	300 676 676	-	-	300 676 676
Notes to the annual financial statements	As previously reported	Prior period error	Reclassification on	Restated as at 30 June 2015
Commitments				
Already committed but not yet provided for				
Property, plant and equipment	115 925 632	3 194 773	-	119 120 405

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48. Prior period errors (continued)

Interest received
Long outstanding 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
Long outstanding 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 2016 2015

48. Prior period errors (continued)

Inventories

Inventory decreased 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.

Commitments

Commitments increased as

- R31.4 million of projects were added that were not previously disclosed or included in the commitments register,
- VAT of R13.8 million was removed from the contract values and payments,
- projects of R30 million were removed which were completed before 30 June 2015 but were still sitting in the commitments register and
- retentions to the value of R15.6 million that were incorrectly deducted on the commitments register was removed.

49. Unauthorised expenditure

Opening Balance	497 166 312	354 440 360
Add: Unauthorised expenditure - current year	12 776 158	142 725 952
	509 942 470	497 166 312

Current year

	Reason	Amount
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
		12 776 158

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
	348 654 272	343 371 421

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.

King Sabata Dalindyebo Municipality

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	2016	2015
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51. Irregular expenditure

Opening balance	497 893 114	365 690 453
Add: Irregular Expenditure - current year	101 521 428	132 202 661
	599 414 542	497 893 114

Analysis of expenditure awaiting condonation per age classification

Current year	101 521 428	132 202 661
Prior years	497 893 114	365 690 453
	599 414 542	497 893 114

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.	53 062 524
The newspaper advertisement could not be located therefore there is no proof that the bid was advertised.	2 329 826
The bid specifications committee was not established at the time the procurement took place.	46 129 078
	101 521 428

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	-
Current year subscription / fee	3 282 795	3 394 194
Amount paid - current year	(3 282 795)	(3 394 194)
	-	-

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

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	272 257 263	246 539 047
Own use	(7 444 867)	(5 644 800)
Pre-paid consumer electricity sold	(94 680 754)	(93 517 815)
Conventional consumer billed	(134 370 945)	(122 917 059)
	35 760 697	24 459 373

Units purchased during the year	272 257 263	246 539 047
Units sold during the year	(236 496 566)	(222 079 674)

35 760 697 **24 459 373**

Rand per unit	1.33	1.20
Cost in rands	47 387 319	29 317 798

Audit fees

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)
	3 281 625	1 504 666

PAYE and UIF

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)
	14 478 164	6 462 299

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)
	16 753 445	10 647 079

VAT

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

King Sabata Dalindyebo Municipality

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 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
	13 160	31 825	44 985

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	561	-	561
Cllr Francis RS / Ngcobo LM	1 212	6 057	7 269
	18 844	6 057	24 901

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

3 quotations not obtained	1 223 379	86 346
Sole supplier	1 148 806	1 594 380
Emergency procurement	822 272	346 431
Advertising in local newspaper	948 998	742 588
Pauper burials-body already at parlour	125 870	87 911
Rotation system for utilisation of all shops, hence there is only one quote	-	315 290
	4 269 325	3 172 946

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.

King Sabata Dalindyebo Municipality

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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.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	256 704 222	-	-	-
VAT payable	12 708 503	-	-	-
Other financial liabilities	9 228 269	31 962 542	-	-
Consumer deposits	15 718 570	-	-	-
Finance lease obligation	843 746	435 514	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	224 263 277	-	-	-
VAT payable	8 487 640	-	-	-
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.

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.

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55. Risk management (continued)

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:

Financial instrument	2016	2015
Cash and cash equivalents	12 501 813	40 186 754
Receivables from exchange transactions	31 031 851	27 741 258
Receivables from non-exchange transactions	17 927 938	12 478 175

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.

56. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	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	-	17 927 938	17 927 938
Cash and cash equivalents	12 501 813	-	12 501 813
	12 501 813	48 959 789	61 461 602

Financial liabilities

	At amortised cost	Total
Other financial liabilities	41 190 811	41 190 811
Trade and other payables from exchange transactions	256 704 222	256 704 222
	297 895 033	297 895 033

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. Financial instruments disclosure (continued)

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
	80 406 187	80 406 187

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
	275 276 200	275 276 200

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.