



King Sabata Dalindyebo Municipality  
Annual Financial Statements  
for the year ended June 30, 2018

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## General Information

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### Nature of business and principal activities

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

### Mayoral committee

Executive Mayor  
Speaker  
Chief Whip  
Members of the Mayoral Committee

Cllr D M Zozo  
Cllr N R Gcingca  
Cllr S Nyengane  
Cllr G N Nelani  
Cllr M Nyoka  
Cllr N Sibeko  
Cllr Z Madyibi  
Cllr L N Ntlonze  
Cllr M T Mtirara  
Cllr Z Nokayi  
Cllr T Machaea  
Cllr T E Mapekula

### Councillors

Cllr J Voko  
Cllr Z D Kutu  
Cllr M Mabaso  
Cllr T G Maqoko  
Cllr S Jadiso  
Cllr V N S Roji  
Cllr M Menzelwa  
Cllr M Qotyana  
Cllr Z Luvantyu  
Cllr N Mkontwana  
Cllr Z M Gusana  
Cllr T Mcimbi  
Cllr C S Tokwana  
Cllr U Daniso  
Cllr N Diblokwe  
Cllr O Khotso  
Cllr M Mrwebi  
Cllr M J Msakeni  
Cllr E M Fileyo  
Cllr Z Ntliziyombi  
Cllr S Mhlaba  
Cllr A Ndzendze  
Cllr S Mlotywa  
Cllr B Bikani  
Cllr X M Mbongwana  
Cllr M Mkhotheli  
Cllr L Mkonto  
Cllr S Sikrenya  
Cllr M D Teti  
Cllr L D Liwani  
Cllr B D Bara  
Cllr N Gcinindawo  
Cllr B Ndlobongela  
Cllr B Babile

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## General Information

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	Cllr T Mngoma
	Cllr T Bhova
	Cllr M Bunzana
	Cllr G N Lusu
	Cllr N F Mzimane
	Cllr M W Malotana
	Cllr B B Gqwetha
	Cllr M Gogo
	Cllr N Ngqongwa
	Cllr N Pali
	Cllr N Nyangani
	Cllr M Mpangele
	Cllr W V Sanda
	Cllr R Knock
	Cllr A Mgquba
	Cllr L M Luwaca
	Cllr U N V Malghas
	Cllr N M Nqwazi
	Cllr M Sitshwala
	Cllr N Mtwá
	Cllr N A Sobahle
	Cllr L P Zuma
	Cllr M A Manzolwandle
	Cllr B Malghas
<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer</b>	Mr E Jiholo
<b>Accounting Officer</b>	Mr M Sigaba (Acting)
<b>Registered office</b>	Munitata Building Sutherland Street Mthatha
<b>Postal address</b>	Private Bag X5083 Mthatha 5099
<b>Bankers</b>	ABSA FNB
<b>Auditors</b>	Auditor General of South Africa
<b>Chairperson of the Audit Committee</b>	Adv PV Msiwa
<b>Members of the Audit Committee</b>	Mr M N De Beer  Ms T Njozela Dr E P Vermaak

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
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**  
Annual Financial Statements for the year ended June 30, 2018

**Accounting officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the 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 annual financial statements and was given unrestricted access to all financial records and related data.

The annual 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 annual 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 and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or loss 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 and all employees are required to maintain the highest ethical standards in ensuring the 's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the is on identifying, assessing, managing and monitoring all known forms of risk across the . While operating risk cannot be fully eliminated, the 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the 's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the 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 's annual financial statements.

The annual financial statements set out on pages 6 to 94, which have been prepared on the going concern basis, were approved on 31 August 2018 by the accounting officer.

  
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**Municipal Manager (Acting)**

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	15,387,445	9,280,489
Receivables from exchange transactions	4	34,890,659	43,974,598
Receivables from non-exchange transactions	5	39,008,724	40,180,064
VAT receivable	6	15,391,848	8,440,569
Cash and cash equivalents	7	27,366,032	18,540,950
		<b>132,044,708</b>	<b>120,416,670</b>
<b>Non-Current Assets</b>			
Investment property	8	282,263,500	245,733,500
Property, plant and equipment	9	2,606,375,133	2,529,883,377
Intangible assets	10	666,436	943,973
Heritage assets	11	4,697,000	4,697,000
		<b>2,894,002,069</b>	<b>2,781,257,850</b>
<b>Total Assets</b>		<b>3,026,046,777</b>	<b>2,901,674,520</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	12	10,312,675	10,281,663
Finance lease obligation	13	13,933,850	427,910
Payables from exchange transactions	14	391,902,740	389,944,863
Consumer deposits	15	17,419,966	17,015,925
Unspent conditional grants and receipts	16	28,558,668	23,490,217
		<b>462,127,899</b>	<b>441,160,578</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	12	17,159,819	27,576,150
Finance lease obligation	13	43,424,161	7,604
Provisions	17	31,361,682	24,378,489
		<b>91,945,662</b>	<b>51,962,243</b>
<b>Total Liabilities</b>		<b>554,073,561</b>	<b>493,122,821</b>
		<b>2,471,973,216</b>	<b>2,408,551,699</b>
<b>Reserves</b>			
Revaluation reserve	18	383,988,031	383,988,031
Self insurance reserve		3,566,825	3,425,513
Accumulated surplus		2,084,418,360	2,021,138,155
<b>Total Net Assets</b>		<b>2,471,973,216</b>	<b>2,408,551,699</b>

\* See Note 54

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	399,066,611	350,427,491
Rental of facilities and equipment	20	16,966,730	13,190,819
Licences and permits	21	14,558,256	15,154,555
Other income	22	12,803,519	10,332,418
Investment revenue	23	39,431,480	38,945,238
Fair value adjustments		40,138,500	18,978,546
<b>Total revenue from exchange transactions</b>		<b>522,965,096</b>	<b>447,029,067</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	216,426,743	191,734,822
<b>Transfer revenue</b>			
Government grants and subsidies	25	484,180,675	469,362,438
Public contributions and donations	26	30,781,013	170,120,680
Fines, penalties and forfeits		1,954,400	1,391,842
<b>Total revenue from non-exchange transactions</b>		<b>733,342,831</b>	<b>832,609,782</b>
<b>Total revenue</b>		<b>1,256,307,927</b>	<b>1,279,638,849</b>
<b>Expenditure</b>			
Employee related costs	27	(402,364,121)	(374,193,456)
Remuneration of councillors	28	(26,476,647)	(23,819,852)
Depreciation and amortisation	29	(131,801,055)	(157,886,599)
Finance costs	30	(24,434,477)	(15,545,928)
Lease rentals on operating lease	31	(15,446,629)	(16,507,595)
Debt Impairment	32	(98,812,462)	(14,168,480)
Bulk purchases	33	(256,242,917)	(250,059,345)
Contracted services	34	(8,991,500)	(10,552,403)
Grants and Subsidies paid	35	(34,907,977)	(55,870,785)
Loss on disposal of assets		(61,612,073)	(3,033,300)
General Expenses	36	(131,937,892)	(169,043,437)
<b>Total expenditure</b>		<b>(1,193,027,750)</b>	<b>(1,090,681,180)</b>
<b>Surplus for the year</b>		<b>63,280,177</b>	<b>188,957,669</b>

\* See Note 54

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at July 1, 2016</b>	<b>383,988,031</b>	<b>3,045,886</b>	<b>387,033,917</b>	<b>1,832,180,486</b>	<b>2,219,214,403</b>
Changes in net assets					
Surplus for the year	-	-	-	188,957,669	188,957,669
Movement in self insurance reserve	-	379,627	379,627	-	379,627
Total changes	-	379,627	379,627	188,957,669	189,337,296
<b>Restated* Balance at July 1, 2017</b>	<b>383,988,031</b>	<b>3,425,513</b>	<b>387,413,544</b>	<b>2,021,138,183</b>	<b>2,408,551,727</b>
Changes in net assets					
Movement in self insurance reserve	-	141,312	141,312	-	141,312
Net income (losses) recognised directly in net assets	-	141,312	141,312	-	141,312
Surplus for the year	-	-	-	63,280,177	63,280,177
Total recognised income and expenses for the year	-	141,312	141,312	63,280,177	63,421,489
Total changes	-	141,312	141,312	63,280,177	63,421,489
<b>Balance at June 30, 2018</b>	<b>383,988,031</b>	<b>3,566,825</b>	<b>387,554,856</b>	<b>2,084,418,360</b>	<b>2,471,973,216</b>
Note(s)	18				

\* See Note 54



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		167,283,590	174,850,871
Receipts from Customers		405,934,841	358,140,597
Grants		489,249,126	468,429,403
Interest income		39,431,480	38,945,238
		<u>1,101,899,037</u>	<u>1,040,366,109</u>
<b>Payments</b>			
Employee costs		(419,657,575)	(395,195,273)
Suppliers		(460,423,231)	(404,152,200)
Finance costs		(24,434,477)	(15,545,928)
		<u>(904,515,283)</u>	<u>(814,893,401)</u>
<b>Net cash flows from operating activities</b>	39	<b><u>197,383,754</u></b>	<b><u>225,472,708</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(178,314,665)	(215,719,154)
Proceeds from sale of property, plant and equipment	9	-	82,700
Acquisition of Self Insurance		141,312	379,627
		<u>(178,173,353)</u>	<u>(215,256,827)</u>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(10,385,319)	(3,332,998)
Finance lease payments		-	(843,746)
		<u>(10,385,319)</u>	<u>(4,176,744)</u>
<b>Net decrease in cash and cash equivalents</b>		<b>8,825,082</b>	<b>6,039,137</b>
Cash and cash equivalents at the beginning of the year		18,540,950	12,501,813
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>27,366,032</u></b>	<b><u>18,540,950</u></b>

\* See Note 54

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	431,811,522	4,000,000	<b>435,811,522</b>	399,066,611	<b>(36,744,911)</b>	Ref to note 40
Rental of facilities and equipment	19,318,858	-	<b>19,318,858</b>	16,966,730	<b>(2,352,128)</b>	Ref to note 40
Licences and permits	17,168,241	-	<b>17,168,241</b>	14,558,256	<b>(2,609,985)</b>	Ref to note 40
Other income	13,981,320	1,300,000	<b>15,281,320</b>	12,803,519	<b>(2,477,801)</b>	Ref to note 40
Interest received	41,333,297	-	<b>41,333,297</b>	39,431,480	<b>(1,901,817)</b>	Ref to note 40
<b>Total revenue from exchange transactions</b>	<b>523,613,238</b>	<b>5,300,000</b>	<b>528,913,238</b>	<b>482,826,596</b>	<b>(46,086,642)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	242,247,861	(10,000,000)	<b>232,247,861</b>	216,426,743	<b>(15,821,118)</b>	Ref to note 40
<b>Transfer revenue</b>						
Government grants & subsidies	428,185,743	2,830,982	<b>431,016,725</b>	484,180,675	<b>53,163,950</b>	Ref to note 40
Public contributions and donations	-	600,000	<b>600,000</b>	30,781,013	<b>30,181,013</b>	Ref to note 40
Fines, Penalties and Forfeits	2,690,620	-	<b>2,690,620</b>	1,954,400	<b>(736,220)</b>	Ref to note 40
<b>Total revenue from non-exchange transactions</b>	<b>673,124,224</b>	<b>(6,569,018)</b>	<b>666,555,206</b>	<b>733,342,831</b>	<b>66,787,625</b>	
<b>Total revenue</b>	<b>1,196,737,462</b>	<b>(1,269,018)</b>	<b>1,195,468,444</b>	<b>1,216,169,427</b>	<b>20,700,983</b>	
<b>Expenditure</b>						
Personnel	(452,479,590)	34,021,649	<b>(418,457,941)</b>	(402,364,121)	<b>16,093,820</b>	
Remuneration of councillors	(26,732,362)	(110,954)	<b>(26,843,316)</b>	(26,476,647)	<b>366,669</b>	
Depreciation and amortisation	(163,792,246)	(1,930,835)	<b>(165,723,081)</b>	(131,801,055)	<b>33,922,026</b>	
Finance costs	(28,461,400)	-	<b>(28,461,400)</b>	(24,434,477)	<b>4,026,923</b>	
Lease rentals on operating lease	(42,325,932)	5,476,819	<b>(36,849,113)</b>	(15,446,629)	<b>21,402,484</b>	
Debt Impairment	(28,053,000)	-	<b>(28,053,000)</b>	(98,812,462)	<b>(70,759,462)</b>	
Bulk purchases	(285,634,601)	-	<b>(285,634,601)</b>	(256,242,917)	<b>29,391,684</b>	
Contracted Services	(7,981,953)	81,705	<b>(7,900,248)</b>	(8,991,500)	<b>(1,091,252)</b>	
Grants and Subsidies Paid	(53,978,438)	(6,432,544)	<b>(60,410,982)</b>	(34,907,977)	<b>25,503,005</b>	
General Expenses	(100,055,214)	(32,830,097)	<b>(132,885,311)</b>	(131,937,892)	<b>947,419</b>	
<b>Total expenditure</b>	<b>(1,189,494,736)</b>	<b>(1,724,257)</b>	<b>(1,191,218,993)</b>	<b>(1,131,415,677)</b>	<b>59,803,316</b>	
<b>Operating surplus</b>	<b>7,242,726</b>	<b>(2,993,275)</b>	<b>4,249,451</b>	<b>84,753,750</b>	<b>80,504,299</b>	
Fair value adjustments	-	-	-	40,138,500	<b>40,138,500</b>	Ref to note 40
Gains on disposal of non-current assets	1,422,029	-	<b>1,422,029</b>	(61,612,073)	<b>(63,034,102)</b>	Ref to note 40
	<b>1,422,029</b>	-	<b>1,422,029</b>	<b>(21,473,573)</b>	<b>(22,895,602)</b>	
<b>Surplus before taxation</b>	<b>8,664,755</b>	<b>(2,993,275)</b>	<b>5,671,480</b>	<b>63,280,177</b>	<b>57,608,697</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>8,664,755</b>	<b>(2,993,275)</b>	<b>5,671,480</b>	<b>63,280,177</b>	<b>57,608,697</b>	

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

Figures in Rand

	Original budget	Budget adjustments	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	242,247,861	(10,000,000)	232,247,861	-		232,247,861	216,426,743		(15,821,118)	93 %	89 %
Service charges	431,811,522	4,000,000	435,811,522	-		435,811,522	399,066,611		(36,744,911)	92 %	92 %
Investment revenue	41,333,297	-	41,333,297	-		41,333,297	39,431,480		(1,901,817)	95 %	95 %
Transfers recognised - operational	293,207,877	2,830,982	296,038,859	-		296,038,859	293,881,918		(2,156,941)	99 %	100 %
Other own revenue	189,558,934	1,900,000	191,458,934	-		191,458,934	86,421,405		(105,037,529)	45 %	46 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1,198,159,491</b>	<b>(1,269,018)</b>	<b>1,196,890,473</b>	<b>-</b>		<b>1,196,890,473</b>	<b>1,035,228,157</b>		<b>(161,662,316)</b>	<b>86 %</b>	<b>86 %</b>
Employee costs	(452,479,590)	34,021,649	(418,457,941)	-	-	(418,457,941)	(402,364,121)	-	16,093,820	96 %	89 %
Remuneration of councillors	(26,732,362)	(110,954)	(26,843,316)	-	-	(26,843,316)	(26,476,647)	-	366,669	99 %	99 %
Debt impairment	(28,053,000)	-	(28,053,000)			(28,053,000)	(98,812,462)	-	(70,759,462)	352 %	352 %
Depreciation and asset impairment	(163,792,246)	(1,930,835)	(165,723,081)			(165,723,081)	(131,801,055)	-	33,922,026	80 %	80 %
Finance charges	(28,461,400)	-	(28,461,400)	-	-	(28,461,400)	(24,434,477)	-	4,026,923	86 %	86 %
Materials and bulk purchases	(285,634,601)	-	(285,634,601)	-	-	(285,634,601)	(256,242,917)	-	29,391,684	90 %	90 %
Transfers and grants	(53,978,438)	(6,432,544)	(60,410,982)	-	-	(60,410,982)	(34,907,977)	-	25,503,005	58 %	65 %
Other expenditure	(150,363,099)	(27,271,573)	(177,634,672)	-	-	(177,634,672)	(217,988,094)	-	(40,353,422)	123 %	145 %
<b>Total expenditure</b>	<b>(1,189,494,736)</b>	<b>(1,724,257)</b>	<b>(1,191,218,993)</b>	<b>-</b>	<b>-</b>	<b>(1,191,218,993)</b>	<b>(1,193,027,750)</b>	<b>-</b>	<b>(1,808,757)</b>	<b>100 %</b>	<b>100 %</b>
<b>Surplus/(Deficit)</b>	<b>8,664,755</b>	<b>(2,993,275)</b>	<b>5,671,480</b>	<b>-</b>		<b>5,671,480</b>	<b>(157,799,593)</b>		<b>(163,471,073)</b>	<b>(2,782)%</b>	<b>(1,821)%</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	134,977,866	-	134,977,866	-		134,977,866	190,298,757		55,320,891	141 %	141 %
Contributions recognised - capital and contributed assets	-	600,000	600,000	-		600,000	30,781,013		30,181,013	5,130 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>143,642,621</b>	<b>(2,393,275)</b>	<b>141,249,346</b>	<b>-</b>		<b>141,249,346</b>	<b>63,280,177</b>		<b>(77,969,169)</b>	<b>45 %</b>	<b>44 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>143,642,621</b>	<b>(2,393,275)</b>	<b>141,249,346</b>	<b>-</b>		<b>141,249,346</b>	<b>63,280,177</b>		<b>(77,969,169)</b>	<b>45 %</b>	<b>44 %</b>

### Capital expenditure and funds sources

Total capital expenditure	235,716,403	-	235,716,403	-		235,716,403	218,853,420		(16,862,983)	93 %	93 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	227,051,645	49,318,280	276,369,925	-		276,369,925	190,298,757		(86,071,168)	69 %	84 %
Public contributions and donations	-	600,000	600,000	-		600,000	30,781,013		30,181,013	5,130 %	DIV/0 %
Internally generated funds	8,664,757	(3,045,012)	5,619,745	-		5,619,745	2,619,621		(3,000,124)	47 %	30 %
<b>Total sources of capital funds</b>	<b>235,716,402</b>	<b>46,873,268</b>	<b>282,589,670</b>	<b>-</b>		<b>282,589,670</b>	<b>223,699,391</b>		<b>(58,890,279)</b>	<b>79 %</b>	<b>95 %</b>

The accounting policies on pages 14 to 41 and the notes on pages 42 to 94 form an integral part of the annual financial statements.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual 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 annual 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 period.

#### 1.1 Presentation currency

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

All figures have been rounded off to the nearest Rand.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the 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 54 "Prior period errors", to the Financial Statements.

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

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual 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 annual financial statements. Significant judgements include:

##### Trade receivables

The 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 loss, 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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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

#### Asset Management and Intangible Assets

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 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 , and the cost or fair value of the investment property can be measured reliably.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.5 Investment property (continued)

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

Where investment property is acquired through a non-exchange transaction, 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 loss 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 loss 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 loss when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

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, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note ).

The discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 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.

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 ; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 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 loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or loss.

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

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

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

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

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

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

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

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

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

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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
- 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

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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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

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 depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the . The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The assesses at each reporting date whether there is any indication that the expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

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

The separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the 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 ; and
- the cost or fair value of the asset can be measured reliably.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
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The discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

Intangible assets are derecognised:

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

### 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.

The separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

The discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

#### Recognition

The 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 , 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.

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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.8 Heritage assets (continued)

#### Subsequent measurement

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

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or loss to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or loss.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or loss. 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 assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the 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 derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or loss when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.9 Financial instruments

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

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 entity 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 entity 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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

### Classification

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

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

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

Class	Category
Other financial liabilities - Long term	Financial liability measured at amortised cost
Other financial liabilities - short term	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Initial recognition

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

The entity 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 loss 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 loss.

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 loss.

# King Sabata Dalindyebo Municipality

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### 1.9 Financial instruments (continued)

#### Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

##### 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 loss. 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 loss.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or loss.

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 loss.

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

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



# King Sabata Dalindyebo Municipality

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### 1.9 Financial instruments (continued)

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.

#### 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.

# King Sabata Dalindyebo Municipality

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### 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.

# King Sabata Dalindyebo Municipality

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### 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 loss is recognised as an expense immediately.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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 used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- 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 entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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

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

#### Value in use

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

When estimating the value in use of an asset, the estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the 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 loss.

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 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 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 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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

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

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

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

#### Reversal of impairment loss

The 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 loss.

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

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

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

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

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

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

#### Redesignation

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

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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.

# King Sabata Dalindyebo Municipality

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

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

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

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

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

Recoverable 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:

- the period of time over which an asset is expected to be used by the municipality; or
- 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 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 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 loss.

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 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

# King Sabata Dalindyebo Municipality

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## Accounting Policies

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

The 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 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 loss.

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 after deducting all of its liabilities.

### 1.16 Employee benefits

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

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

- a entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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 entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity 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.

# King Sabata Dalindyebo Municipality

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### 1.16 Employee benefits (continued)

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 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 benefits in the cost of an asset.

#### 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 entity 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 entity 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 entity 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.



# King Sabata Dalindyebo Municipality

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### 1.16 Employee benefits (continued)

#### Termination benefits

The entity 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.

The entity 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 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 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 profit (loss).

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 42.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.17 Provisions and contingencies (continued)

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.

The 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 has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the 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 ; 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 ;
- 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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

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

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

#### 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 , and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or loss, 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 loss, when the '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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

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

### Measurement

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

When, as a result of a non-exchange transaction, the 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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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

#### Property rates

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

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

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

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

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

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

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

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

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

#### Transfers

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

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

#### Fines

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

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

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

#### 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 and the fair value of the assets can be measured reliably.

#### Services in-kind

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

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 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.

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.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.26 Unauthorised expenditure (continued)

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 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 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 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.

### 1.30 Revaluation reserve

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

### 1.31 Segment information

A segment is an activity of an entity:

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.31 Segment information (continued)

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

### 1.32 Budget information

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 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 7/1/2017 to 6/30/2018.

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

The annual 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 annual financial statements as the recommended disclosure when the annual 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

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 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**

Annual Financial Statements for the year ended June 30, 2018

## **Notes to the Annual Financial Statements**

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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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### 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

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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### 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

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 18 Segmental Reporting - Issued February 2011

GRAP 20 Related Party Disclosures - Issued June 2011

GRAP 32 Service Concession Arrangements - Issued August 2013

GRAP 34 Separate Financial Statements - Issued March 2017

GRAP 35 Consolidated Financial Statements - Issued March 2017

GRAP 36 Investments in Associates and Joint Ventures - Issued March 2017

GRAP 37 Joint Arrangements - Issued March 2017

GRAP 38 Disclosure of Interests in Other Entities - Issued March 2017

GRAP 108 Statutory receivables - Issued September 2013

GRAP 109 Accounting by principals and agents - Issued July 2015

### GRAP 18 Segmental Reporting

This standard requires the municipality to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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

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.

#### **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 34 Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The impact of this on the financial statements is not expected to be significant. This standard does not yet have an effective date.

#### **GRAP 35 Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet the objective, this Standard:

- (a) requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- (b) defines the principle of control, and establishes control as the basis for consolidation;
- (c) sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- (d) sets out the accounting requirements for the preparation of consolidated financial statements; and
- (e) defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The impact of this on the financial statements is not expected to be significant. This standard does not yet have an effective date.

#### **GRAP 36 Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The impact of this on the financial statements is not expected to be significant. This standard does not yet have an effective date.

#### **GRAP 37 Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet the objective, this Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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

those rights and obligations in accordance with that type of joint arrangement.

The impact of this on the financial statements is not expected to be significant. This standard does not yet have an effective date.

#### GRAP 38 Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

The impact of this on the financial statements 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.

#### Interpretations and Directives issued, but not yet effective

The following interpretations have 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

IGRAP 18 Interpretation of the Standard of GRAP on Recognition and Derecognition of Land.

IGRAP 19 Liabilities to Pay Levies – Issued March 2017

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities – Issued August 2015

#### **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

#### **IGRAP 18 Interpretation of the Standard of GRAP on Recognition and Derecognition of Land.**

The Interpretation of the Standards of GRAP provides guidance on when an entity should recognise and derecognise land as its asset.

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. The impact of this on the financial statements is not expected to be significant. This interpretation does not yet have an effective date.

#### **IGRAP 19 – Liabilities to Pay Levies**

This Interpretation addresses the recognition of a liability to pay a levy if that liability is within the scope of GRAP 19. It also addresses the recognition of a liability to pay a levy whose timing and amount is certain. The measurement of a liability to pay a levy is not addressed in this Interpretation, instead an entity refers to GRAP 19.

The impact of this on the financial statements is not expected to be significant. This interpretation does not yet have an effective date

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

There is no impact as they directive only applies to public entities that are not currently applying Standards of GRAP.

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	6,735,827	6,445,005
Electrical Equipment	8,651,618	2,835,484
	<b>15,387,445</b>	<b>9,280,489</b>

Inventories recognised as an expense during the year

	6,735,827	2,694,489
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### 4. Receivables from exchange transactions

Creditors with debit balances	344,773	344,773
Consumer debtors Other	9,809	9,809
Consumables Sundry Debtors	1,635,456	1,664,298
Consumer debtors - Electricity	38,050,409	50,117,573
Consumer debtors - Refuse	136,797,132	103,824,231
Consumer debtors - Rentals	123,186,172	106,603,437
Provision for Impairment	(265,133,092)	(218,589,523)
	<b>34,890,659</b>	<b>43,974,598</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Trade and other receivables pledged as security</b>		
The municipality does not have any receivables from exchange transactions that have been pledged as security		
<b>Fair value of trade and other receivables</b>		
Trade and other receivables	34,890,659	43,974,598
The fair value of trade and other receivables from exchange transactions approximates their carrying amount.		
<b>Trade and other receivables past due but not impaired</b>		
The normal credit term for the municipality is 30 days. At June 30, 2018, receivables of R 13,086,685 (2017: R 19,254,785) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	4,865,872	913,194
2 months past due	774,927	5,417,990
3 months past due	348,887	1,472,829
Over 3 months	5,541,901	9,335,297
Penalties and interest	1,555,099	2,115,475
<b>Trade and other receivables impaired</b>		
As of June 30, 2018, trade and other receivables of R 265,133,092 (2017: R 218,589,523) were impaired and provided for.		
The ageing of these amounts is as follows:		
1 to 3 months	15,590,143	23,780,292
3 to 6 months	9,170,463	8,175,491
Over 6 months	169,804,916	134,233,386
Penalties and interest	70,567,571	52,400,353
Included in the above are receivables from exchange transactions as follows;		
<b>Electricity -Ageing</b>		
Current	19,357,294	19,399,758
31 - 60 days	5,756,123	11,205,460
61 - 90 days	894,535	6,003,938
91 - 120 days	1,358,058	1,692,941
> 120 days	5,478,943	8,858,952
Penalties and interest	2,397,458	2,956,525
	<b>35,242,411</b>	<b>50,117,574</b>
<b>Refuse - Ageing</b>		
Current	2,358,500	1,878,859
31 - 60 days	1,610,040	1,878,190
61 - 90 days	1,725,275	1,569,818
91 - 120 days	1,922,773	1,647,265
> 120 days	100,714,294	77,307,362
Penalties and interest	28,843,368	19,514,603
	<b>137,174,250</b>	<b>103,796,097</b>
<b>Rentals - Ageing</b>		
Current	1,493,539	1,047,408
31 - 60 days	1,168,675	1,006,329



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>		
61 - 90 days	1,427,689	981,194
91 - 120 days	1,445,312	947,513
> 120 days	76,370,612	68,420,756
Penalties and interest	42,383,609	35,303,501
	<b>124,289,436</b>	<b>107,706,701</b>
<b>Sundry debtors- Ageing</b>		
Current	-	-
31 - 60 days	-	-
61 - 90 days	-	-
> 120 days	1,645,266	1,664,298
	<b>1,645,266</b>	<b>1,664,298</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

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

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

Opening balance	218,589,523	200,444,710
Provision for impairment	46,543,569	18,144,813
	<b>265,133,092</b>	<b>218,589,523</b>

#### Summary of debtors by customer classification

	Consumers	Industrial/ Commercial	Government	Total
<b>as at 30 June 2018</b>				
Current	2,197,916	17,319,085	4,588,261	24,105,262
31 - 60 days	2,043,945	5,965,519	525,374	8,534,838
61 - 90 days	2,151,809	1,753,549	142,142	4,047,500
91 - 120 days	2,461,391	2,153,635	111,117	4,726,143
>120 days	150,885,243	28,257,121	5,066,751	184,209,115
Penalties and interest	60,162,583	12,136,654	1,325,199	73,624,436
	219,902,887	67,585,563	11,758,844	299,247,294
Less provision for impairment	(217,848,419)	(47,284,674)	-	(265,133,093)
	<b>2,054,468</b>	<b>20,300,889</b>	<b>11,758,844</b>	<b>34,114,201</b>

#### Summary of debtors by customer classification

	Consumers	Industrial/ Commercial	Government	Total
<b>as at 30 June 2017</b>				
Current	2,428,953	13,926,455	6,315,388	22,670,796
31 - 60 days	1,975,440	10,491,137	1,623,402	14,089,979
61 - 90 days	1,825,185	4,261,474	2,468,292	8,554,951
91 - 120 days	1,790,462	2,228,148	269,109	4,287,719
>120 days	123,169,799	29,122,696	3,968,682	156,261,177
Penalties and interest	46,239,739	10,549,685	985,205	57,774,629
	177,429,578	70,579,595	15,630,078	263,639,251
Less provision for impairment	(174,825,530)	(43,763,993)	-	(218,589,523)
	<b>2,604,048</b>	<b>26,815,602</b>	<b>15,630,078</b>	<b>45,049,728</b>

### 5. Receivables from non-exchange transactions

Impairment	(232,251,220)	(180,374,274)
Consumer debtors old balances	70,224	70,564
Other receivables from non-exchange revenue	471,725	471,725
Consumer debtors - Rates	270,717,995	220,012,049
	<b>39,008,724</b>	<b>40,180,064</b>

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

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

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

Other receivables from non-exchange transactions	39,008,724	40,180,064
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The fair value of trade and other receivables from non exchange transactions, approximates their carrying amount.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions past due but not impaired</b>		
The normal credit term for the municipality is 30 days. At June 30, 2018, receivables of R 28,627,536 (2017: R 34,251,206) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1,972,702	1,135,049
2 months past due	837,574	638,417
3 months past due	550,534	473,030
More than 3 months past due	21,794,410	27,220,629
Penalties and interest	3,472,317	4,784,081
<b>Receivables from non-exchange transactions impaired</b>		
As of June 30, 2018, other receivables from non-exchange transactions of R 232,251,220 (2017: R 180,374,274) were impaired and provided for.		
The ageing of the amounts impaired and provided for as follows:		
1 to 3 months	19,110,013	11,313,140
3 to 6 months	7,004,482	7,598,749
Over 6 months	159,346,771	127,105,738
Penalties and interest	47,181,900	34,356,647
Included in the above are receivables from non-exchange transactions are as follows:		
<b>Rates - Ageing</b>		
Current	19,559,676	10,349,074
31 - 60 days	4,008,694	3,375,974
61 - 90 days	3,041,255	2,928,367
91 - 120 days	2,735,620	3,121,173
> 120 days	192,480,190	160,518,010
Penalties and interest	52,278,907	39,719,451
	<b>274,104,342</b>	<b>220,012,049</b>
<b>Other (old balances) - Ageing</b>		
Current	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	-	70,564
> 120 days	70,224	-
	<b>70,224</b>	<b>70,564</b>
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	180,374,274	184,904,134
Provision for impairment	51,876,946	(4,529,860)
	<b>232,251,220</b>	<b>180,374,274</b>
<b>6. VAT receivable</b>		
VAT	15,391,848	8,440,569

Inputs to the value of R24 138 175 were disallowed by the South African Revenue Services. The municipality is in the process of investigating and recovering the disallowed amount.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	1,050	1,050
Bank balances	16,223,371	5,217,053
Own investments- Short term	6,700,649	6,397,235
Other cash and cash equivalents	4,440,962	6,925,612
	<b>27,366,032</b>	<b>18,540,950</b>

### 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 had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
FNB Call Account 62090323636	3,276,778	555,918	837,213	3,276,778	497,062	837,213
ABSA Call Account 4061496604	2,815,749	611,278	1,443,439	2,815,749	611,278	1,443,439
ABSA Cheque Account 4048218780	561,735	527,564	355,280	561,735	527,564	355,280
Self Insurance Reserve (Hollard Insurance Company - Experience Account)	3,566,825	3,425,513	3,045,886	3,566,825	3,425,513	3,045,886
ABSA Call Account MTAB 9061932550	541,432	541,839	16,741	541,432	541,839	17,190
Unclaimed Group Life Insurance ABSA 9057846202	2,678,362	2,544,216	2,398,819	2,678,362	2,544,216	2,409,564
ABSA Target Save - Various Accounts	198,231	188,486	179,012	198,231	188,486	179,010
ABSA Call Account Grant Admin 9260118400	-	16,455	15,683	-	16,455	15,753
ABSA Call Account Ngangelizwe ISUP 9264472169	277,773	991,135	1,936	277,773	991,135	1,989
Investic Bank Invest 1100456924	243,731	228,320	219,313	243,731	228,320	219,313
ABSA Call Account KSD Election 9260118662	115,362	148,761	2,671	115,362	148,761	2,721
ABSA Call Account MSG 9097169945	-	56,907	54,395	-	56,907	54,395
ABSA Call Account Mqanduli Miling 9118441412	3,466	3,602	3,679	3,438	3,577	3,676
ABSA Call Account Rural Planning 9260110101	133,670	137,469	3,436	133,643	137,442	3,492
ABSA Call Account Uphuhlisolwethu 9260112632	-	5,550	5,310	-	5,550	5,334
ABSA Call Account Organogram Dev 9260110397	310,007	310,438	5,888	311,300	310,438	5,958
ABSA Call Account Mqanduli Middle Income 9095799392	351,277	351,528	5,528	351,277	351,528	5,528
ABSA Call Light The Pilot 9260109699	-	-	8,082	-	-	8,152

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand			2018			2017
<b>7. Cash and cash equivalents (continued)</b>						
FNB Cheque 62471836513	9,462,427	3,520,028	3,570,268	9,569,110	3,581,148	3,600,936
FNB Call 62480366345 DOE	39,943	74,061	16,268	39,943	74,061	16,268
Electrification						
FNB Call 62480370031FMG	17,890	26,050	2,280	17,890	26,050	2,280
FNB Call Account 62480368838	84,136	2,855,785	13,052	84,136	2,855,785	13,052
MIG Account UCCMIP						
FNB Call Account 62480371592	-	-	3,922	-	-	3,922
MSIG						
FNB Call Account 62480372863	406	44,509	3,644	406	44,509	3,644
Library						
FNB Call Account 62486520151	416,466	24,520	2,896	416,466	24,520	2,896
Infrastructure Skills Dev						
FNB Call Account 62500280516	4,484	56,155	1,686	4,484	56,155	1,686
LED Support						
FNB Call Account 62500281936	1,874	1,860	1,842	1,874	1,860	1,842
Chamber of Mines						
FNB Call Account 62504407801	37,110	75,337	2,797	37,110	75,337	2,797
Ngangelizwe Urban Ren						
FNB Call Account 62504409477	-	2,535	5,905	-	2,535	5,905
Disaster Management						
FNB Call Account 62504410383	52,679	59,160	4,330	52,679	59,160	4,330
Fire Station						
FNB Call Account 62504411315	281,005	271,037	6,755	281,005	271,037	6,755
ISUP Phola Park						
FNB Call Account 62504412066	-	-	6,300	-	-	6,300
ISUP Maydene						
FNB Call Account 62504413741	24,025	23,851	23,712	24,025	23,851	23,712
Transkei United Dairies						
FNB Call Account 62504414608	285,895	11,763	34,730	285,895	11,763	34,730
Maydene Farm Extension						
FNB Call Account 62504417420	-	2,085	40,109	-	2,085	40,109
Zimbane Heights						
FNB Call Account 62504418022	56,994	55,605	43,482	56,994	55,605	43,482
ISUP Hillcrest						
FNB Call Account 62504444639	147,907	187,341	8,105	147,907	187,341	8,105
DOT Taxi Rank						
FNB Call Account 62505830811	437,741	411,353	9,638	437,741	411,353	9,638
ISUP Joe Slovo						
FNB Call Account 62521207911	-	-	644	-	-	644
Electricity Demand Side						
FNB Call Account 62523941070	67,670	106,607	10,590	67,670	106,607	10,590
New Brighton						
FNB Call Account 62523942408	11,143	11,175	10,590	11,143	11,175	10,590
Kei Rail						
FNB Call Account 62557024785	58,510	61,193	29,816	58,510	61,193	29,816
H S Graduates						
FNB Call Account 62559404092	13,500	10,699	2,856	13,500	10,699	2,841
Asset Financing						
FNB Call Account 62709676582	675,133	-	-	682,153	-	-
(DOT Payover Account)						
<b>Total</b>	<b>27,251,336</b>	<b>18,537,688</b>	<b>12,458,528</b>	<b>27,366,277</b>	<b>18,539,900</b>	<b>12,500,763</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 8. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	282,263,500	-	282,263,500	245,733,500	-	245,733,500

#### Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	245,733,500	(3,608,500)	40,138,500	282,263,500

#### Reconciliation of investment property - 2017

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	228,859,454	(2,104,500)	18,978,546	245,733,500

#### 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 .

#### Details of valuation

The effective date of the revaluations was Saturday, June 30, 2018. Revaluations were performed by an independent valuer, Mr Kwasi

Agyaben-Boateng, B.Sc Honours (Land Economy) and registered as a professional valuer in terms of the Valuers Act (Registration No 3550/9), of Khanyisa Property Management Services. Khanyisa Property Management Services are not connected to the municipality and have recent experience in location and category of the investment property being valued.

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	231,825,500	-	231,825,500	232,778,000	-	232,778,000
Buildings	298,540,461	(59,133,103)	239,407,358	298,540,461	(44,744,629)	253,795,832
Infrastructure	2,528,122,408	(1,248,203,286)	1,279,919,122	2,169,433,114	(1,153,974,778)	1,015,458,336
Community	494,797,926	(77,882,879)	416,915,047	475,962,209	(62,981,046)	412,981,163
Other property, plant and equipment	24,514,981	(18,916,997)	5,597,984	22,587,824	(17,169,141)	5,418,683
Work In Progress	355,358,930	-	355,358,930	578,324,823	-	578,324,823
Specialised vehicles	103,914,771	(26,563,579)	77,351,192	51,143,046	(20,016,506)	31,126,540
<b>Total</b>	<b>4,037,074,977</b>	<b>(1,430,699,844)</b>	<b>2,606,375,133</b>	<b>3,828,769,477</b>	<b>(1,298,886,100)</b>	<b>2,529,883,377</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers from Inventory	Transfers from WIP	Depreciation	Total
Land	232,778,000	-	(952,500)	-	-	-	231,825,500
Buildings	253,795,832	-	-	-	-	(14,388,474)	239,407,358
Infrastructure	1,015,458,336	1,062,568	(182,664)	2,564,259	355,245,461	(94,228,838)	1,279,919,122
Community	412,981,163	-	-	-	18,835,717	(14,901,833)	416,915,047
Other property, plant and equipment	5,418,683	1,857,917	-	-	-	(1,678,616)	5,597,984
Work In Progress	578,324,823	209,845,711	-	-	(432,811,604)	-	355,358,930
Specialised vehicles	31,126,540	53,035,314	(11,504)	-	-	(6,799,158)	77,351,192
	<b>2,529,883,377</b>	<b>265,801,510</b>	<b>(1,146,668)</b>	<b>2,564,259</b>	<b>(58,730,426)</b>	<b>(131,996,919)</b>	<b>2,606,375,133</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Land	234,584,500	-	(1,011,500)	-	(795,000)	-	232,778,000
Buildings	272,383,666	191,000	-	-	(2,937,446)	(15,841,388)	253,795,832
Infrastructure	1,000,715,283	1,339,823	-	132,996,035	-	(119,592,805)	1,015,458,336
Community	420,974,601	260,000	-	2,229,518	3,732,446	(14,215,402)	412,981,163
Other property, plant and equipment	5,204,295	1,669,370	-	-	-	(1,454,982)	5,418,683
Work In Progress	363,647,971	351,139,164	-	(136,462,312)	-	-	578,324,823
Specialised vehicles	27,912,699	9,622,585	-	-	-	(6,408,744)	31,126,540
	<b>2,325,423,015</b>	<b>364,221,942</b>	<b>(1,011,500)</b>	<b>(1,236,759)</b>	<b>-</b>	<b>(157,513,321)</b>	<b>2,529,883,377</b>

#### 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.

Repairs and maintenance to the value of R1 451 114.19 were incurred for Electricity infrastructure assets.



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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Figures in Rand	2018	2017
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### 9. Property, plant and equipment (continued)

There are Human Settlement projects that had been halted due to land claims as a result there was no movement in the current and these projects are included in the working in progress.

#### Details of Work In Progress

Community Assets	9,571,132	12,848,648
Infrastructure Assets	345,787,798	565,476,175
	<b>355,358,930</b>	<b>578,324,823</b>

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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

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

#### Assets subject to finance lease

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 R0 (2017: R435 514).

#### Revaluations

Land, buildings and community assets are re-valued independently after 3 - 5 years. The last revaluation of assets was 2016.

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

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2,416,037	(1,749,601)	666,436	2,416,037	(1,472,064)	943,973

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	943,973	(277,537)	666,436

#### Reconciliation of intangible assets - 2017

	Opening balance	Other changes, movements	Total
Computer software, other	1,317,251	(373,278)	943,973

#### Pledged as security

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

### 11. Heritage assets

	2018			2017		
	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

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>11. Heritage assets (continued)</b>		
<b>Reconciliation of heritage assets 2018</b>		
	Opening balance	Total
Recreational parks	4,697,000	4,697,000
<b>Reconciliation of heritage assets 2017</b>		
	Opening balance	Total
Recreational parks	4,697,000	4,697,000
<b>12. Other financial liabilities</b>		
<b>At amortised cost</b>		
Annuity Loan DBSA	19,609,598	23,150,414
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 6 month JIBAR + Margin rate.		
DBSA loan 61001048 is redeemable in 2026 and a borrowing rate is 6.75 %.		
Annuity Loan PIC	7,862,896	14,707,399
PIC loan is redeemable in December 2018 and the borrowing rate is 8% . KSD cedes to PIC in securitatem debiti rights in the Municipal Building of KSD situated at ERF 9441, 47 to 49 Sutherland Street Mthatha measuring 8.309 square metres.		
	<b>27,472,494</b>	<b>37,857,813</b>
<b>Non-current liabilities</b>		
Designated at fair value	-	-
Annuity Loan - DBSA	17,159,819	19,620,119
Annuity Loan - PIC	-	7,956,031
	<b>17,159,819</b>	<b>27,576,150</b>
<b>Current liabilities</b>		
Designated at fair value	-	-
Annuity Loan DBSA	2,449,779	3,530,295
Annuity Loan - PIC	7,862,896	6,751,368
	<b>10,312,675</b>	<b>10,281,663</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	13,933,850	427,910
- in second to fifth year inclusive	43,424,161	7,604
	57,358,011	435,514
less: future finance charges	(14,831,849)	-
<b>Present value of minimum lease payments</b>	<b>42,526,162</b>	<b>435,514</b>
<b>Present value of minimum lease payments due</b>		
- within one year	9,131,571	427,910
- in second to fifth year inclusive	33,379,012	7,604
	<b>42,510,583</b>	<b>435,514</b>
Non-current liabilities	43,424,161	7,604
Current liabilities	13,933,850	427,910
	<b>57,358,011</b>	<b>435,514</b>

The Wesbank/FNB motor vehicle finance lease contract was entered into during 2018 financial year. 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 R57 358 011 (2017: R0) and attracts an average interest rate of 10.850% (2017: 0%) per annum.

The above was a facility of R120 million and only R57.4 million has been utilised during the current year.

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 R0 (2017: R435 514) and attracts an average interest rate of 18%.

### 14. Payables from exchange transactions

Trade payables	166,492,116	194,325,017
BT Ngebs	638	2,852,314
Operating lease smoothing	21,571	21,571
Deferred interest	20,615	42,753
Income Received In Advance	2,479,264	2,078,447
Salary payovers	98,798,669	79,635,296
Staff Prepaid Houses	1,075,999	1,075,999
Study Loans	23,514	23,514
Retentions	11,072,823	7,317,151
Unknown Deposits	7,728,954	7,823,213
Insurance Claims	2,500	2,500
Other payables	24,794,531	32,696,325
Deposits received	755,654	758,158
Accrued expense	21,846,463	7,091,554
Accrued Leave Pay and Bonus	54,775,189	52,186,811
Unclaimed Group Life	2,014,240	2,014,240
	<b>391,902,740</b>	<b>389,944,863</b>

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

### 15. Consumer deposits

Electricity	17,419,966	17,015,925
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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>16. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
National: Department of Energy- Electrification Projects	(13,946)	(788,735)
Provincial: Municipal Infrastructure Grant	12,782,289	2,151,412
Provincial: Department of Housing	333,652	333,652
Provincial: Rural Planning and Survey	126,943	126,943
Provincial: KSD Elections- Road Maintenance	109,543	109,543
Library Grant	-	(287,641)
Infrastructure Skills Development	813,081	1,294,073
Human Settlements Projects	3,213,576	9,072,624
Human Settlements Graduates	(45,290)	104,803
Electricity Demand Side Management	(31,146)	(11,054)
FMG	(1)	51,152
Provincial : Organogram Development	294,477	294,477
Provincial: MTAB Grant	514,265	514,265
Provincial: Urban Renewal Grant	2,716,352	2,779,830
Provincial : Department of Transport- Taxi Rank	7,236,277	7,236,277
Provincial: Fire Station Refurbishment	155,714	155,714
Chamber of Mines Grant	352,882	352,882
	<b>28,558,668</b>	<b>23,490,217</b>

### Movement during the year

Balance at the beginning of the year	17,282,429	24,423,252
Additions during the year	188,556,824	163,967,717
Income recognition during the year	(183,512,894)	(169,119,397)
Re-allocation of funds	-	(1,979,027)
Opening balance restatement	6,207,788	6,207,788
Interest payover to Human Settlements	-	(136,114)
Interests received	24,521	125,998
	<b>28,558,668</b>	<b>23,490,217</b>

### 17. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Movement	Total
Provision for long service awards	15,584,919	-	3,598,668	19,183,587
Environmental rehabilitation	8,793,570	3,384,525	-	12,178,095
	<b>24,378,489</b>	<b>3,384,525</b>	<b>3,598,668</b>	<b>31,361,682</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 17. Provisions (continued)

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Provision for long service awards	15,201,847	383,072	15,584,919
Environmental Rehabilitation	6,358,607	2,434,963	8,793,570
	<b>21,560,454</b>	<b>2,818,035</b>	<b>24,378,489</b>

#### Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The municipality has two landfill sites (Mthatha and Mqanduli landfill site). At the current valuation date, 30 June 2018, the expected life of the Mthatha and Mqanduli landfill sites is projected to be +/-1 and +/- 5 years respectively .

The Landfill Rehabilitation Provision was calculated by external valuer Enzokuhle Enterprise.

#### Provision for long service awards

Service cost increased the liability by R1 767 185. Interest cost over the valuation period resulted in an increase in liability by R1 222 269. Some of the employees attained milestones during the valuation period and this resulted in bonus payments of R1 830 738 which reduced the accrued liability by the same margin.

The average liability has increased by 30% due to an increase in the average salary and an increase in the average past service, partially offset by an increase in the net discount rate.

The total liability has increased by 23% (or R 3 598 668) due to the above, partially offset by the fact that there are eleven fewer eligible employees than at the last valuation.

	2018	2017
<b>Provision for long service award</b>		
Opening net liability	15,584,919	15,201,847
Service cost	1,767,185	1,731,411
Interest cost	1,222,269	1,195,410
Actuarial gain/ (loss)	2,439,952	(470,132)
Bonus Paid	(1,830,738)	(2,073,617)
	<b>19,183,587</b>	<b>15,584,919</b>

### 18. Revaluation reserve

Opening balance	383,988,031	383,988,031
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The revaluation reserve arises out of revaluation of land and buildings.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>19. Service charges</b>		
Sale of electricity	353,588,543	314,858,451
Refuse removal	45,478,068	35,569,040
	<b>399,066,611</b>	<b>350,427,491</b>
<b>20. Rental of facilities and equipment</b>		
<b>Premises</b>		
Rental of facilities	287,589	360,217
Rental of Equipment	1,780,934	958,052
Premises	14,898,207	11,872,550
	<b>16,966,730</b>	<b>13,190,819</b>
<b>21. Licences and permits</b>		
Licence fees - Drivers Licence	4,861,799	4,959,919
Vehicle registration and roadworthy fees	482,396	1,661,072
Motor vehicle registration fees	9,070,079	8,321,900
Licence fees - Business	84,364	93,476
Permits - Vending and Hawking	59,618	118,188
	<b>14,558,256</b>	<b>15,154,555</b>
<b>22. Other Income</b>		
Library fees	95,837	67,261
Disconnection fees	1,075,569	745,989
Meter testing	1,002,863	806,525
Building plan approvals	1,217,416	719,702
Call out revenue	323,995	94,757
Insurance Claims	184,811	91,084
Sundry income	920,022	960,642
Tender fees	-	28,070
Recoveries	199,641	673,989
Pound fees	37,063	19,071
Fees earned	7,692,507	6,119,701
Printing and stationery recoveries	53,795	5,627
	<b>12,803,519</b>	<b>10,332,418</b>
<b>23. Investment revenue</b>		
<b>Interest revenue</b>		
Interest from investments and bank	1,690,897	1,834,496
Interest charged on trade and other receivables	37,740,583	37,110,742
	<b>39,431,480</b>	<b>38,945,238</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>24. Property rates</b>		
<b>Rates received</b>		
Residential	51,806,942	43,117,519
Commercial	94,300,898	67,061,463
State	70,260,261	81,502,042
Municipal - parking	58,642	53,798
	<b>216,426,743</b>	<b>191,734,822</b>
<b>Valuations</b>		
Residential	7,829,069,000	7,897,555,500
Commercial	5,991,943,500	4,086,428,500
State	2,349,828,000	3,391,072,500
Municipal	161,813,000	2,011,314,000
Small holdings, farms and agriculture	10,030,000	59,104,000
Open spaces	-	44,651,500
Places of public worship	120,417,000	109,630,000
Vacant Land	1,451,460,000	583,187,000
Public Benefit organisation	217,784,000	-
	<b>18,132,344,500</b>	<b>18,182,943,000</b>

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

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

## 25. Government grants and subsidies

### Operating grants

Equitable share	267,710,073	249,413,000
MIG	5,026,923	4,258,452
VAT Operational	1,502,669	586,475
Electricity Demand Side Management Grant	6,993,502	7,028,664
Disaster Management Grant	-	1,531,855
Infrastructure Skills Development	4,453,284	3,645,230
Elections Road Repairs Grant	-	1,124,494
Human Settlements: Graduates	725,167	751,644
Langeni Rural Planning and Survey	-	287,977
SETA Grant	296,597	593,040
MSIG Grant	-	(12,060)
FMG	2,099,900	2,109,029
Various grants	-	6,947
Library Grant	1,450,577	2,593,433
Urban Renewal	55,198	-
Expanded Public Program Grant	3,568,028	1,699,000
	<b>293,881,918</b>	<b>275,617,180</b>



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Government grants and subsidies (continued)</b>		
<b>Capital grants</b>		
Provincial: Infrastructure Intervention	20,313,248	55,302,304
Fire Station Refurbishment	-	549,210
MIG	79,052,525	78,873,506
VAT Capital	12,999,739	12,958,216
Municipal Electrification Intervention COGTA	10,017,408	-
Human Settlement	55,328,319	31,721,624
DOE Grant	12,587,518	14,340,398
	<b>190,298,757</b>	<b>193,745,258</b>
	<b>484,180,675</b>	<b>469,362,438</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	198,103,569	210,313,548
<b>Unconditional grants received</b>		
Equitable Share	267,710,073	249,413,000
SETA	296,597	593,040
Expanded Public Program Grant	3,568,028	4,068,501
VAT Operational	1,502,669	586,475
VAT Capital	12,999,739	12,958,216
Various Grants	-	6,947
	<b>484,180,675</b>	<b>477,939,727</b>

### 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 - (2017: R17 396 216), which is funded from the grant.

### Human Settlements ISUP

Balance unspent at beginning of year	9,072,624	5,806,574
Current-year receipts	42,604,529	35,467,045
Conditions met - transferred to revenue	(42,328,319)	(38,398,667)
Other	72,530	125,998
Restatement	(6,207,788)	6,207,788
	-	(136,114)
	<b>3,213,576</b>	<b>9,072,624</b>

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

### Electricity Demand Site Management

Balance unspent at beginning of year	(11,054)	429
Current-year receipts	8,000,000	8,000,000
Conditions met - transferred to revenue	(8,020,092)	(8,011,483)
	<b>(31,146)</b>	<b>(11,054)</b>

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

### Grant Admin Development

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	-	15,608
Current-year receipts	-	-
Other	-	(15,608)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>DOHS: Community Multipurpose Centre Ngangelizwe</b>		
Balance unspent at beginning of year	-	10
Other	-	(10)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Uphuhliso Lwethu</b>		
Balance unspent at beginning of year	-	5,280
Other	-	(5,280)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: MTAB Grant</b>		
Balance unspent at beginning of year	514,265	514,265
Current-year receipts	-	-
	<u>514,265</u>	<u>514,265</u>
Conditions still to be met - remain liabilities (see note 16).		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	2,151,412	12,060
Current-year receipts	106,308,000	97,213,000
Conditions met - transferred to revenue	(95,677,123)	(93,397,287)
Other	-	(1,676,361)
	<u>12,782,289</u>	<u>2,151,412</u>
Conditions still to be met - remain liabilities (see note 16).		

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Government grants and subsidies (continued)</b>		
<b>National: Financial Management Grant</b>		
Balance unspent at beginning of year	51,152	450,969
Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,196,153)	(2,209,817)
	<b>(1)</b>	<b>51,152</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	(12,060)
Other	-	12,060
	-	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Rural planning &amp; survey</b>		
Balance unspent at beginning of year	126,943	449,250
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(322,307)
	<b>126,943</b>	<b>126,943</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial : Light the Pilot Media</b>		
Balance unspent at beginning of year	-	236,947
Current-year receipts	-	-
Other	-	(236,947)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: KSD Elections- Road Maintenance</b>		
Balance unspent at beginning of year	109,543	1,251,467
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(1,141,924)
	<b>109,543</b>	<b>109,543</b>

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Government grants and subsidies (continued)</b>		
<b>Department of Housing and Local Government</b>		
Balance unspent at beginning of year	333,652	333,652
Current-year receipts	-	-
	<b>333,652</b>	<b>333,652</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Library Grant</b>		
Balance unspent at beginning of year	(287,641)	640,286
Current-year receipts	1,750,000	1,750,000
Conditions met - transferred to revenue	(1,462,359)	(2,676,870)
Other	-	(1,057)
	<b>-</b>	<b>(287,641)</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial: Urban Renewal Grant</b>		
Balance unspent at beginning of year	2,779,830	2,779,830
Conditions met - transferred to revenue	(63,478)	-
	<b>2,716,352</b>	<b>2,779,830</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Infrastructure Skills Development</b>		
Balance unspent at beginning of year	1,294,073	54,685
Current-year receipts	5,334,000	5,000,000
Conditions met - transferred to revenue	(5,814,992)	(3,760,612)
	<b>813,081</b>	<b>1,294,073</b>
unauthConditions still to be met - remain liabilities (see note 16).		
<b>Organogram Development Grant</b>		
Balance unspent at beginning of year	294,477	294,477
Conditions still to be met - remain liabilities (see note 16).		
<b>Department of Transport</b>		
Balance unspent at beginning of year	7,236,277	7,236,277
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial : Disaster Management Grant</b>		
Balance unspent at beginning of year	-	1,536,138
Conditions met - transferred to revenue	-	(1,535,466)
Other	-	(672)
	<b>-</b>	<b>-</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial Fire Station Refurbishment Grant</b>		
Balance unspent at beginning of year	155,714	720,570
Conditions met - transferred to revenue	-	(564,765)
Other	-	(91)
	<b>155,714</b>	<b>155,714</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Provincial:Municipal Support Grant</b>		
Balance unspent at beginning of year	-	53,893
Other	-	(53,893)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
<b>LED Support</b>		
Balance unspent at beginning of year	-	1,668
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other	-	(1,668)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
<b>LLR Chamber of Mines</b>		
Balance unspent at beginning of year	352,882	352,882
Conditions still to be met - remain liabilities (see note 16).		
<b>National: Department of Energy - Electrification Projects</b>		
Balance unspent at beginning of year	(788,735)	1,559,320
Current-year receipts	15,000,000	14,000,000
Conditions met - transferred to revenue	(14,225,211)	(16,348,055)
	<b>(13,946)</b>	<b>(788,735)</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Grant 32</b>		
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Human Settlements - Graduates</b>		
Balance unspent at beginning of year	104,803	128,775
Current-year receipts	575,075	727,672
Conditions met - transferred to revenue	(725,168)	(751,644)

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018      2017

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

**(45,290)      104,803**

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

#### Changes in level of government grants

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

### 26. Public contributions and donations

Public contributions and donations	30,781,013	167,751,179
Financial assistance	-	2,369,501
	<b>30,781,013</b>	<b>170,120,680</b>

Donations received and financial assistance relates to roads that were constructed by SANRAL and financial assistance by the District Municipality in the current Financial Year as well as payments made by the Department on behalf of the municipality.

### 27. Employee related costs

Basic	248,262,425	229,328,670
Acting allowances	6,209,710	5,605,213
Overtime payments	21,775,561	17,793,426
Bonus- Annual Leave	16,002,396	14,423,147
Medical aid - company contributions	20,484,717	20,390,320
Pension and Provident Fund Contribution	29,747,340	28,875,066
UIF	2,063,090	1,993,237
WCA	2,018,697	2,126,076
SDL	123,789	65,029
Leave pay provision charge	4,664,650	8,437,035
Travel, motor car, accommodation, subsistence and other allowances	17,308,553	15,058,486
Long-service awards	8,728,358	5,514,859
Housing benefits and allowances	19,766,660	19,012,399
Termination benefits	5,208,175	5,570,493
	<b>402,364,121</b>	<b>374,193,456</b>

The municipality made a back payment of R69 757 896 relating to TASK Grade that was approved by the Council as a result of the Job Evaluation curves Collective Agreement between SALGA and the Unions in June 2010. Out of the total payment of R69 757 896, R17 612 394 relates to 2017/18 financial year, R13 583 585 relates to 2016/17 financial year and R38 561 912 is an accrual from 2010 to 2016 financial years.

#### Remuneration of municipal manager - Mr M Zenzile

Annual Remuneration	354,964	1,249,596
Car Allowance	-	13,258
Contributions to UIF, Medical and Pension Funds	446	1,785
Other	102,230	35,323
	<b>457,640</b>	<b>1,299,962</b>

Mr M Zenzile was the Municipal Manager from July 2017 to September 2017.

#### Remuneration of acting municipal manager- Mr M Sigaba

Annual Remuneration	89,531	-
Contributions to UIF, Medical and Pension Funds	148	-

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 27. Employee related costs (continued)

**89,679** -

Mr M Sigaba was appointed as the Acting Municipal Manager from June 2018

#### Remuneration of chief finance officer - Mr EF Jiholo

Annual Remuneration	1,305,112	1,243,550
Acting allowance	2,593	-
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Other	40,604	64,495
	<b>1,350,094</b>	<b>1,309,830</b>

The Chief Financial Officer received a back-pay of R832 962.81 relating to services while he was still employed as the General Manager for task

#### Remuneration of Director: Technical Services - Mr ZH Ngovela

Annual Remuneration	1,266,237	1,266,237
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Other	58,826	222,099
	<b>1,326,848</b>	<b>1,490,121</b>

#### Remuneration of Director: Community Services - Mr LP Maka

Annual Remuneration	1,282,118	1,249,985
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Other	48,871	123,452
Acting allowance	75,976	-
	<b>1,408,750</b>	<b>1,375,222</b>

#### Remuneration of Director: Corporate services - Mr A Mdleleni

Annual Remuneration	1,238,619	1,278,309
Contributions to UIF, Medical and Pension Funds	1,636	1,785
Other	-	22,068
	<b>1,240,255</b>	<b>1,302,162</b>

Mr A Mdleleni contract ended in May 2018

#### Remuneration of Director : Public Safety - MR FFB Gaba

Annual Remuneration	437,057	1,284,881
Contributions to UIF, Medical and Pension Funds	595	1,785
Other	97,732	52,487
	<b>535,384</b>	<b>1,339,153</b>

Mr FFB Gaba contract ended in October 2017

#### Remuneration of Director : Human Settlements - Mrs NN Soldati

Annual Remuneration	1,270,088	1,270,088
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Other	22,409	9,600
Acting allowance	1,208	-
	<b>1,295,490</b>	<b>1,281,473</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>27. Employee related costs (continued)</b>		
<b>Remuneration of Director: Local Economic Development - Mr AO Pantswa</b>		
Annual Remuneration	694,694	1,036,298
Performance Bonuses	-	106,843
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Other	596,023	91,881
	<b>1,292,502</b>	<b>1,236,807</b>
Mr AO Pantswa was appointed as a new director from July 2017		
<b>Remuneration of Director : Public Safety Mrs N Maqekeza (Acting)</b>		
Acting Allowance	271,446	-
Mrs N Maqekeza started acting as the director from October 2017		
<b>28. Remuneration of councillors</b>		
Executive Mayor (Previous) - Cllr N Ngqongwa	-	36,049
Executive Major (Current) - Cllr D M Zozo	894,762	767,319
Chief Whip (Previous) - Cllr Z M Gusana	-	27,699
Chief Whip (Current) - S Nyengane	664,211	572,089
Speaker (Previous) - D M Zozo	-	32,254
Speaker (Current) - N R Gcingca	729,992	659,349
Councillors	24,187,682	21,725,093
	<b>26,476,647</b>	<b>23,819,852</b>



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor and the Speaker of the Council have the use of separate Council owned vehicles for official duties.		
<b>29. Depreciation and amortisation</b>		
Property, plant and equipment	131,801,055	157,886,599
<b>30. Finance costs</b>		
Interest on overdue accounts trade and other payables	21,763,044	12,031,223
Borrowings	2,671,433	3,514,705
	<b>24,434,477</b>	<b>15,545,928</b>
<b>31. Lease rentals from operating lease</b>		
Operating lease	15,446,629	16,507,595
The municipality does not have operating leases that exceed 12 months.		
<b>32. Debt impairment</b>		
Impairment of debtors	98,812,462	14,168,480
<b>33. Bulk purchases</b>		
Electricity	256,242,917	250,059,345
<b>34. Contracted services</b>		
<b>Presented previously</b>		
Information Technology Services	6,973,349	8,707,039
Operating Leases	-	148,500
Specialist Services	940,423	982,301
Other Contractors	1,077,728	714,563

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>35. Grants and Subsidies paid</b>		
<b>Other subsidies</b>		
Other grants	787,929	1,039,621
Council ward committees	10,113,200	9,620,044
SETA	-	3,801
Bursaries	645,185	70,615
Organogram development	-	88
Public expense	758,781	584,558
Indigent Subsidy	3,832,540	23,323,696
Expanded Public works program	1,767,399	1,683,793
Department of Local Government	2,435	1,965,505
Electricity demand side management	7,040,600	7,028,664
Infrastructure skills development grant	5,070,115	3,933,369
Finance Management Grant	2,087,373	1,382,750
Library grant	75,244	2,413,105
Ward based budgeting	2,727,176	2,821,176
	<b>34,907,977</b>	<b>55,870,785</b>
<b>36. General expenses</b>		
Audit committee expenses	341,463	95,735
Advertising	474,140	348,104
Auditors remuneration	9,095,828	8,066,281
Bank Charges	1,137,210	1,031,013
Cleaning	433,000	822,156
Commission paid	2,904,846	2,534,736
Consulting and professional fees	437,902	3,988,917
Cleaning	1,233,440	2,125,403
Donations	11,900	11,249
Entertainment	420,550	589,773
Community development and training	2,081,341	1,071,415
Conferences and seminars	284,171	275,948
Promotions and sponsorships	391,958	405,584
Levies	8,720,865	6,646,010
Magazines, books and periodicals	20,347	81,345
Motor vehicle expenses	985,335	257,921
Municipal Service Charges	6,403,642	5,983,867
Litigation fees	-	12,139,523
Fuel and oil	4,718,209	5,256,978
Rehabilitation of Tip Sites	3,761,372	5,911,883
Printing and stationery	1,563,937	2,408,926
Uniforms	459,524	598,788
Valuation expenses	384,183	548,693
Repairs and maintenance	41,276,304	55,210,362
Royalties and license fees	892,664	2,187,244
Staff welfare	27,481	27,129
Telephone and fax	6,452,534	8,232,415
Training	1,907,000	2,557,214
Subsistence & Travelling	3,561,783	1,701,858
Subscriptions and Membership Fees	3,813	4,153
Insurance	2,472,686	2,438,568
Other expenses	3,544,932	3,630,438
Solid waste management	-	411,478
Recruitment Expenses	313,301	366,237
Erven Cleaning Fees	46,473	53,071
Material & Stores	2,750,445	2,694,489
State Funeral Expenses	-	-
Incentive - Prompt Payment	1,262,550	12,957,139
Legal Fees	21,160,763	15,371,394

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>36. General expenses (continued)</b>	<b>131,937,892</b>	<b>169,043,437</b>
<b>37. Fair value adjustments</b>		
Investment property (Fair value model)	40,138,500	18,978,546
<b>38. Auditors' remuneration</b>		
Fees	9,095,828	8,066,281
<b>39. Cash generated from operations</b>		
Surplus	63,280,177	188,957,669
<b>Adjustments for:</b>		
Depreciation and amortisation	131,801,055	157,886,599
Loss on sale of assets and liabilities	61,612,073	3,033,300
Fair value adjustments	(40,138,500)	(18,978,546)
Debt impairment	98,812,462	14,168,480
Movements in provisions	6,983,193	2,818,035
Other non-cash items - Donations	(30,781,013)	(170,120,680)
<b>Other non-cash items - Financial assistance</b>		
Inventories	(6,106,958)	(1,623,963)
Receivables from exchange transactions	9,083,939	(12,819,873)
Movement in provision for debt impairment	(98,812,462)	(14,168,480)
Other receivables from non-exchange transactions	1,171,340	(22,252,126)
Payables from exchange transactions	1,957,877	94,087,235
VAT	(6,951,921)	4,120,738
Unspent conditional grants and receipts	5,068,451	(933,035)
Consumer deposits	404,041	1,297,355
	<b>197,383,754</b>	<b>225,472,708</b>
<b>40. Budget differences</b>		
<b>Material differences between budget and actual amounts</b>		

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 40. Budget differences (continued)

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

#### Service charges

KSD has not collected refuse collection based on budgeted amounts due to private companies collecting refuse KSD did not have enough trucks during the year (new trucks arrived towards the year end and after year end) to collect revenue, hence the involvement of private companies.

#### Rental of facilities and equipment

This is due to undercollection on the Stadiums, Community Halls and also due to one of Munitata's biggest tenant that vacated.

#### Licence and permits

Thus due to fewer car registrations and permits transactions recorded than anticipated.

#### Other income

This is due to a fewer number of new housing connections than anticipated.

#### Property rates

This is mainly due to delays in the implementation of supplementary valuations and inclusion of new developments in the municipal billing after supplementary valuations.

#### Grants and subsidies received

The increase is due to increase spending in capital projects.

#### Public contributions and donations

The revenue relates to donations in kind in the form of roads by district municipality and SANRAL.

#### Fines, Penalties and Forfeitures

This is due to undercollection of direct income in the form of fines and penalties.

#### Fines, Penalties and Forfeitures

This is due to undercollection of direct income in the form of fines and penalties.

#### Employee related Costs

This is due to the implementation of task grading that was approved in 2010 but only implemented in the current year.

#### Depreciation

This is due to assets disposed of during the year.

#### Finance Cost

This is due to cars that were bought through Wesbank were delivered late than planned date resulting in finance cost being incurred for only a part of a year.

#### Lease rentals on operating lease

This is due to reduction in the leasing charges due to purchase of own plant and equipment.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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Figures in Rand	2018	2017
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### 40. Budget differences (continued)

#### Debt impairment

This is due to under collection of debtors.

#### Bulk Purchases

This is due to significantly lower new electric connections which resulted in less bulk purchases than anticipated.

#### Contracted Services

Overspending than budgeted for.

#### Grants and subsidies paid

This is due to overbudgeting.

#### General expenses

This is due to legal fees, repairs on electrical infrastructure and landfill site provision which were higher than anticipated.

#### Fair Value adjustment

This is dependent on the valuation changes of the investment properties that fluctuates from year to year and was not budgeted for.

#### Gains on disposal of PPE

This is due to losses on assets and transfers to the district municipality.

### 41. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	79,668,414	88,431,447
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##### Total capital commitments

Already contracted for but not provided for	79,668,414	88,431,447
---------------------------------------------	------------	------------

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

### 42. 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.
- its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable, and
- those contingent liabilities that arise because the venturers is contingently liable for the liabilities of the other venturers of a joint venture.

#### Cases

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Contingencies (continued)</b>		
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 Leizwe // 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
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
Nomthunzi Simane // KSD Municipality Claim for damages in respect of illegal, unlawful arrest and detention and contumelia. The matter is still pending.	80,000	150,000
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.	2,460,000	2,310,000
Meyisi Xatula // Municipality Claim for unlawful arrest and detention. The matter is still pending.	120,000	600,000
Naledi Mgwebi // KSD Municipality Claim for damages for alleged botched midwifery procedures. The matter is still pending.	1,100,000	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.	90,000	155,194
Zamile Derrick Ntshoyi // KSD Municipality Alleged unlawful arrest, detention and loss of money. The matter is still pending.	150,000	295,000
Fanekhaya Ngxola // KSD Municipality Claim for damages for alleged unlawful arrest, detention, deprivation of liberty and humiliation. The matter is still pending.	700,000	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.	5,388,000	5,008,000
Mlimi 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.	500,000	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
Mpendulo Vava // KSD Claim for damages for alleged unlawful wrongful arrest and detention. Matter ripe for hearing. Waiting for a court date.	520,000	520,000
Welekazi Sokuthu // KSD Municipality Claim for alleged unlawful arrest and detention. The matter is still pending.	90,000	185,000
Thobile Ngcame // KSD Municipality & Others Motor vehicle accident. Insurance repudiated liability. The matter is still pending.	120,000	754,000

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Contingencies (continued)</b>		
Vuyolwethu Fihla // KSD Municipality Claim for damages for alleged unlawful, wrongful arrest and detention. The matter is still pending.'	581,000	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.	180,000	430,000
Lwandiso Menze & Others // KSD Municipality* Alleged unlawful arrest and detention. The matter is still pending.	230,000	2,000,000
Ncedo Taxi Association// Min of Police, Cluster Commander and KSD	100,000	-
Kwanele Mpukane and 62 others // KSD	250,000	-
Spoliation order Release of impounded taxi		
Nomawabo Lubanga // KSD Claim for acting allowance. The matter is still pending.	150,000	200,000
Wandile Macingwana // KSD Claim for damages resulting from alleged illegal stripping of an impounded kombi. The matter is being defended.	65,000	360,000
Sibongile Ratshalala // KSD Municipality and Chief Traffic Officer, KSD Claim for loss of income. The matter is still pending.	250,000	409,000
Thulani Qosholo// Min of Police, the Commander Joint Operation, KSD and MEC of Transport EC	300,000	-
Spoliation order Release of impounded taxi		
Mzikayifani Gumede // KSD Claim for damages in respect of alleged assault by a municipal traffic officer. Defended and still pending.	320,000	250,000
Tendai Kuruneri & 2 others //KSD* Labour matter emanating from Termination of contract	1,500,000	-
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 Judgment against the municipality rescinded and set aside, municipality granted leave to defend the case. The matter is still pending.	150,000	502,933
M Nondlwana // KSD Claim for damages arising out of alleged shooting incident by municipal law enforcement or traffic police. The matter is still pending.	-	2,300,000
KSD Municipality // Unknown Persons - illegal occupants of even Eviction proceedings. The matter is still pending.	-	300,000
Patrick Mpaka & 3 Others Application for declaratory order. The matter is still pending.	210,000	300,000
A Ndlambe & 28 Others // KSD Municipality Claim for alleged illegal damage to structures. The matter is still pending.	100,000	400,000
Monwabisi Gabada & Others // KSD Claim for overtime. The matter is still pending.	80,000	900,000
Lehlohonolo Mokoena & 13 others// KSD & Another** Claim for damages for alleged unlawful, wrongful arrest and detention.	2,800,000	919,000
Musa Hickson Gqwaru // KSD MVA Claim repudiated by the insurance.	60,000	75,483
Big Blue Marketing CC // KSD* Claim for specific performance. The matter is still pending.	6,000,000	883,139
African Bulk Earthworks (Pty) Ltd // KSD** Claim for compound interest allegedly omitted / neglected during the initial stages. The matter is still pending.	4,200,000	26,924,200
Adrian Howard Bell / Mfihlo & Others interdicting the municipality from disconnecting electricity. The matter is still pending.	250,000	250,000
Khaya Attwell Velebhay / KSD Municipality	300,000	-
Claim for adjustment for notch and benefits		
Seartec Trading Pty (Ltd) // Big Blue Marketing t/a Ikhwezi Computers and KSD	1,000,000	-
Tender for photocopying machines		
African Hawkers Association// KSD Municipality	100,000	-
Nonkululeko Dalindyebo // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	860,000	1,170,000
Umtata High School // KSD. Electricity disconnection	250,000	-
Sikhumbuzo Mange // KSD Municipality*	40,000	30,000
Claim for underpayment. The matter is still pending.		
Zimkhita Macingwana// KSD* Unlawful arrest and detention	200,000	-
Big Blue Marketing t/a Ikhwezi Computers // KSD* Damages for alleged breach of contract. The matter is still pending.	-	576,117
Singata Ndikonanam LUC //KSD* Claim for damages for emotional shock and trauma, funeral expenses, past medical expenses, future medical expenses emanating from Municipality's failure to cover trench.	2,500,000	-

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Contingencies (continued)</b>		
Proud Heritage Properties (Pty) Ltd // KSD** Breach of contract. Pending mediation date.	-	163,476,883
KSD Municipality // Illegal Occupants, remainder of ERF 912* Eviction proceedings. The matter is still pending.	1,000,000	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	150,000
Nkosiphendulo Yolisa // KSD* Alleged assault by Municipal officials.	900,000	-
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
Liziwe Majali // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	1,150,000	1,170,000
Lungile Stololo // KSD Municipality. Delictual. Claim for damages. Matter still pending.	-	150,000
Asive Jambo // KSD Alleged assault by Municipal officials.	700,000	-
Musa Lonwabo Kwetana // KSD Municipality* Claim for Alleged assault.	100,000	-
Nolufefe Mbodla // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	-	1,090,000
Mlungiseleli Zola // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	190,000	202,000
Ngoza Marhasha // KSD Municipality. Mandamant van spolie: Release of motor vehicle. Matter still pending.	-	257,028
Lindile Matshiniza and 8 others// KSD* Loss of income due to containers wrongfully taken by KSD during operation clean up	1,000,000	-
Churchhill Sinukela // KSD Municipality Alleged unlawful arrest and detention. The matter is still pending.	690,000	715,000
Nomfundiso Zuma// KSD Municipality. Damages. Awaiting trial.	35,500	30,000
Nozamile Zamani// KSD Municipality. Damages. Awaiting trial.	27,000	26,000
Nobathembu Mabhongo// KSD Municipality. Damages. Awaiting trial.	38,000	34,000
Daliwe Mahanjana// KSD Municipality. Damages. Awaiting trial.	36,000	33,000
Nobuntu Madyibhi// KSD Municipality. Damages. Awaiting merit assessment opinion.	6,500	6,500
Siyabonga Abednigo Fikizolo// KSD Municipality Claim for damages arising out of the alleged unlawful arrest and detention.	300,000	-
Uniting Reformed Church in South Africa// Unlawful occupants of sites and structures in Decoligny	80,000	-
Eviction at portion of farm 2, erf 47 Decoligny		
Nowake Kwedinana & others// KSD	2,000,000	-
Land invasion: Interdict and claim for rebuilding of demolished structures		
Clayton Sabola// KSD & others	2,000,000	-
Consolidated cointainer/ caravans matters that were impounded when the Municipality embarked on a clean up campaign.		
Jikazi Botha // KSD	500,000	-
Landmark Mthatha (Pty) Ltd // KSD . Contractual: Breach of contract. Matters finalised.	-	4,032,794
Innocent Doba & others// KSD	500,000	-
Land invasion: Interdict and claim for rebuilding of demolished structures in Lower Thornhill.		
African Bulk Earthworks (PTY) LTD// KSD. Contractual: Breach of contract. Matters finalised.	-	2,249,329
Mpendulo Mpotye & 4 Others	300,000	-
Release of mini bus taxis		
Kumani Belggings 120 (Pty) Ltd // KSD.	200,000	100,000
Claim for a refund for alleged overpayment. Matter still pending.		



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Contingencies (continued)</b>		
Zenzo Ndleleni and 6 others// Min of Police, the Commander Joint Operation, KSD and MEC for Transport EC	250,000	-
Spoilation order Release of impounded taxi JF Heuins / KSD Municipality. Appeal from application. Matter still pending.	200,000	200,000
Vusumzi Mbungeni // Provincial Police, Commissioner EC and KSD	250,000	-
Spoilation order Release of impounded taxi JF Heuins & Others / KSD Municipality. Urgent application and application for condonation for appeal. Matter still pending.	-	200,000
Sithembiso Poswa// Provincial Police, Commissioner EC and KSD	250,000	-
Spoilation order Release of impounded tax Jabu Brian Njomane / KSD Municipality.	300,000	2,752,355
Claim for adjustment for notch and benefits. Matter still pending. Bakhona makiwane // KSD	490,000	-
Claim for damages for alleged unlawful, wrongful arrest and detention Jivaza mbuzeli // KSD	125,000	-
Claim for his herd of cattles that were taken by the municipality Nomphiliso Mchosini // KSD	320,000	-
Claim for asault damages made by a worker of the municipality Nomaludwe Magida/KSD. EC Mtha/RC245/13c.	300,000	380,000
Claim for damages arising out of the alleged falling on an uncovered drainag Thabiso Nqongopele // KSD	230,000	-
Motor vehicle impounded by traffic officer Nwabisa Phesiza // KSD	850,000	-
Was assaulted and shot by rubber bullets Luyanda Sobuza // KSD	730,000	-
Assaulted by traffic officer of KSD Simpfiwe Matsoara // KSD	1,400,000	-
Fell into a drophole that was left oen by one of the municipality workers		
	<b>51,942,000</b>	<b>253,232,098</b>

### Employee related costs

The municipality might a possible liability resulting from task upgrade in relation to employees that resigned before implementation date (2018) and might have qualified for task upgrade. The municipality is not yet certain whether it is liable for the payment and the municipality cannot quantify the possible liability.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 43. Related parties

#### Relationships

Mayor

Speaker

Chief Whip

Executive council members

Cllr D M Zozo

Cllr N R Gcingca

Cllr S Nyengane

Cllr G N Nelani

Cllr M Nyoka

Cllr N Sibeko

Cllr Z Madyibi

Cllr L N Ntlonze

Cllr Z Nokayi

Cllr M T Mtirara

Cllr Z Madyibi

Cllr T Machaea

Cllr T E Mapekula

Cllr J Voko

Cllr Z D Kutu

Cllr M Mabaso

Cllr T G Maqoko

Cllr S Jadiso

Cllr V N S Roji

Cllr M Menzelwa

Cllr M Qotyana

Cllr Z Luvantyu

Cllr N Mkontwana

Cllr Z M Gusana

Cllr T Mcimbi

Cllr C S Tokwana

Cllr U Daniso

Cllr Z Nokayi

Cllr N Diblokwe

Cllr O Khotso

Cllr M Mrwebi

Cllr M J Msakeni

Cllr E M Fileyo

Cllr Z Ntliziyombi

Cllr S Mhlaba

Cllr A Ndzendze

Cllr S Mlotywa

Cllr B Bikani

Cllr X M Mbongwana

Cllr M Mkhotheli

Cllr L Mkonto

Cllr S Sikrenya

Cllr M D Teti

Cllr L D Liwani

Cllr B D Bara

Cllr N Gcinindawo

#### Councillors

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 43. Related parties (continued)

<p>Key management</p>	<p>Cllr B Ndlobongela  Cllr B Babile  Cllr T Mngoma  Cllr T Bhova  Cllr M Bunzana  Cllr G N Lusu  Cllr N F Mzimane  Cllr M W Malotana  Cllr B B Gqwetha  Cllr K W Tsipa  Cllr M Gogo  Cllr N Ngqongwa  Cllr N Pali  Cllr N Nyangani  Cllr M Mpangele  Cllr W V Sanda  Cllr K Raymond  Cllr A Mgquba  Cllr L M Luwaca  Cllr U N V Malghas  Cllr N M Nqwazi  Cllr M Sitshwala  Cllr N Mtwā  Cllr N A Sobahle  Cllr L P Zuma  Cllr M A Manzolwandle  Cllr B Malghas  M Sigaba (Acting Municipal manager)  E Jiholo (Chief Financial Officer)  Z H Ngovela (Director:Technical services)  L P Maka (Director:Community services)  N Maqkeza(Acting Director:Public safety)  N N Soldati (Director:Human settlements)  AO Pantswa (Director:LED)</p>
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Related party transactions are at arms length.

Key management remuneration is disclosed in Note 28.

Councilor remuneration is disclosed in Note 29.

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

### 44. Unauthorised expenditure

Unauthorised expenditure	374,742,635	353,738,090
Add: Unauthorised expenditure - current year	98,992,770	21,004,545
	<b>473,735,405</b>	<b>374,742,635</b>

### Current year

	Reason	Amount
Budget and Treasury	Under budgeting on debt impairment	45,224,199
Corporate Services	High Litigation Costs	16,699,878
Public Safety	Overspending on salaries and overtime	37,068,693
		<b>98,992,770</b>

### 45. Fruitless and wasteful expenditure

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>45. Fruitless and wasteful expenditure (continued)</b>		
Fruitless and wasteful expenditure	360,891,320	348,654,272
Add: Fruitless and wasteful expenditure - current year	17,593,260	12,237,048
Fruitless and wasteful expenditure written-off	(360,891,320)	-
	<b>17,593,260</b>	<b>360,891,320</b>

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

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>46. Irregular expenditure</b>		
Opening balance	1,066,826,665	1,009,872,077
Add: Irregular Expenditure - current year	297,530,962	56,954,588
Less: Amounts written-off	(474,765,604)	-
	<b>889,592,023</b>	<b>1,066,826,665</b>
<b>Details of irregular expenditure – current year</b>		
No Specification committee		64,948,639
No tendering documents		6,306,865
Department Regulation 32		174,798,470
Regulation 32		5,291,112
Bid adjudication committee not properly constituted		46,185,876
		<b>297,530,962</b>
<b>47. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	-	-
Current year subscription / fee	4,112,935	3,579,130
Amount paid - current year	(4,112,935)	(3,579,130)
	-	-

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>47. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Distribution losses</b>		
During the 2018 financial year the Municipality incurred distribution losses relating to electricity of 6.47% (2017: 7.00%).		
<b>Electricity distribution losses in units</b>		
Purchases	273,026,529	270,935,712
Own use	(3,299,054)	(3,307,659)
Pre-paid consumer electricity sold	(101,941,364)	(96,986,579)
Conventional consumer billed	(149,396,968)	(151,587,316)
	<b>18,389,143</b>	<b>19,054,158</b>
Units purchased during the year	273,026,529	270,935,712
Units sold during the year	(254,637,384)	(251,881,554)
	<b>18,389,145</b>	<b>19,054,158</b>
Rand per unit	1.39	1.25
Cost in rands	25,535,099	23,818,217
<b>Audit fees</b>		
Opening balance	2,105,420	1,776,959
Current year subscription / fee	10,567,772	9,322,322
Amount paid - current year	(10,789,680)	(8,993,861)
	<b>1,883,512</b>	<b>2,105,420</b>
<b>PAYE and UIF</b>		
Opening balance	32,349,867	14,478,164
Current year subscription / fee	78,679,293	54,225,127
Amount paid - current year	(76,757,689)	(36,353,424)
	<b>34,271,471</b>	<b>32,349,867</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	19,368,761	16,753,445
Current year subscription / fee	80,417,547	64,664,254
Amount paid - current year	(66,725,569)	(62,048,938)
	<b>33,060,739</b>	<b>19,368,761</b>
<b>VAT</b>		
VAT receivable	15,391,848	8,440,569

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

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 47. 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 June 30, 2018:

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Sobahle NA	548	1,162	1,710
Zozo DM	268	-	268
Sibeko N	33	37	70
Malotana MW	2,209	26,678	28,887
Nelani NT	273	2,068	2,341
Knock R	257	1,245	1,502
Gqwetha BB	385	17,596	17,981
Liwani LD	-	19,240	19,240
Mabaso M	1,252	45,427	46,679
Nyangani N	841	28,401	29,242
	<b>6,066</b>	<b>141,854</b>	<b>147,920</b>

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gcingca NR	-	830	830
Mtirara MT	914	68	982
Sibeko N	177	-	177
Nyangani N	593	29,814	30,407
Sobahle NA	289	-	289
Knock R	2,360	1,450	3,810
Liwani LD	-	21,196	21,196
Malotana MW	4,751	25,576	30,327
Tsipa KW	1,597	2,061	3,658
	<b>10,681</b>	<b>80,995</b>	<b>91,676</b>

#### Supply chain management regulations

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

### 48. 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	515,320	816,940
Sole supplier	667,639	273,211
Emergency procurement	58,778	79,304
Advertising in local newspaper	771,371	940,637
Pauper burials-body already at parlour	154,057	98,792
	<b>2,167,165</b>	<b>2,208,884</b>

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

Incorrect disclosure in the tender documents	-	3,302,789
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# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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### 49. Bids awarded to employees in service of the state (continued)

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.

On submission of the bid documents directors did not disclose that they were employed by the state or their relatives were employed by the state. This was also not picked up by CSD.

### 50. 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 June 30, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	391,902,740	-	-	-
Other financial liabilities	10,312,675	17,159,819	-	-
Consumer deposits	17,419,966	-	-	-
Finance lease obligation	13,933,850	43,424,161	-	-

  

At June 30, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	389,944,863	-	-	-
Other financial liabilities	10,281,663	27,576,150	-	-
Consumer deposits	17,015,925	-	-	-
Finance lease obligation	427,910	7,604	-	-

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.



# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 50. 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	2018	2017
Cash and cash equivalents	27,366,032	18,540,950
Receivables from exchange transactions	34,890,659	43,974,598
Receivables from non-exchange transactions	39,008,724	40,180,064

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.

### 51. Financial instruments disclosure

#### Categories of financial instruments

#### 2018

#### Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	34,890,659	34,890,659
Receivables from non-exchange transactions	-	39,008,724	39,008,724
Cash and cash equivalents	27,366,032	-	27,366,032
	<b>27,366,032</b>	<b>73,899,383</b>	<b>101,265,415</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	27,472,494	27,472,494
Payables from exchange transactions	391,902,740	391,902,740
	<b>419,375,234</b>	<b>419,375,234</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### Financial instruments disclosure (continued)

#### 2017

#### Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	43,974,598	43,974,598
Receivables from non-exchange transactions	-	40,180,064	40,180,064
Cash and cash equivalents	18,540,950	-	18,540,950
	<b>18,540,950</b>	<b>84,154,662</b>	<b>102,695,612</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	37,857,813	37,857,813
Trade and other payables from exchange transactions	389,944,863	389,944,863
	<b>427,802,676</b>	<b>427,802,676</b>

### 52. Events after the reporting date

The municipality is not aware of any events after 30 June 2018 that may have an impact on the financial statements or require disclosure.

### 53. Litigation fees

Litigation fees	-	12,139,523
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### 54. 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 2017
<b>Revenue from exchange transactions</b>				
Rental of facilities and equipment	14,294,082	(1,103,263)	-	13,190,819
<b>Revenue from non-exchange transactions</b>				
Property rates	191,220,643	514,179	-	191,734,822
Government grants and subsidies	475,570,226	(6,207,788)	-	469,362,438
Financial assistance	2,369,501	-	(2,369,501)	-
Public contributions and donations	167,751,179	-	2,369,501	170,120,680
<b>Expenditure</b>				
Employee related costs	(360,609,870)	(13,583,586)	-	(374,193,456)
Depreciation	(151,119,287)	(6,767,312)	-	(157,886,599)
Repairs and maintenance	(55,210,362)	-	55,210,362	-
Finance costs	(14,727,735)	(818,193)	-	(15,545,928)
General expenses	(113,845,256)	12,181	(55,210,362)	(169,043,437)

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand		2018	2017
54. Prior period errors (continued)			
		<b>155,693,121</b>	<b>(27,953,782)</b>
			<b>- 127,739,339</b>

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 54. Prior period errors (continued)

Statement of Financial Position	As Previously Reported	Prior Period Error	Reclassification	Restated as at 30 June 2017
<b>Current Assets</b>				
Receivables from exchange transactions	45,049,728	(1,075,130)	-	43,974,598
Receivables from non-exchange transactions	39,665,885	514,179	-	40,180,064
VAT Receivable	8,444,022	(3,452)	-	8,440,570
<b>Non-current assets</b>				
Property, plant and equipment	2,546,740,314	(16,856,937)	-	2,529,883,377
<b>Current liabilities</b>				
Payables from exchange transactions	(340,992,544)	(48,952,319)	-	(389,944,863)
Unspent conditional grants	(17,282,429)	(6,207,788)	-	(23,490,217)
<b>Non current liabilities</b>				
Provisions	(39,228,408)	14,849,918	-	(24,378,490)
<b>Net Assets</b>				
Accumulated surplus	(2,078,869,684)	57,731,529	-	(2,021,138,155)
	<b>163,526,884</b>	<b>-</b>	<b>-</b>	<b>163,526,884</b>

### Notes to the annual financial statements

#### Commitments

#### Already committed but not yet provided for

Property, plant and equipment	As previously reported	Prior period error	Reclassification	Restated as at 30 June 2017
	71,395,489	17,035,958	-	88,431,447

#### Rental of facilities

This is due to correction of a prior year journal.

#### Property rates

This is due to correction of a prior year journal.

#### Government grants and subsidies

The restatement was due to the journal that was double counted in the previous year.

#### Financial assistance

This was due to the reclassification of financial assistance to public contributions and donations.

#### Public contributions and donations

This was due to the reclassification from financial assistance.

#### Depreciation and amortisation

The restatement was due to the projects that were not previously capitalised.

#### Employee cost

This is to accrual of expenditure relating to task upgrade that was not accounted for.

#### Repairs and maintenance

Reclassification to general expenses.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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Figures in Rand

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### 54. Prior period errors (continued)

#### General expenses

Reclassification from repairs and maintenance.

#### Finance costs

Finance cost increased due to restatement of provision of rehabilitation of landfill sites.

#### Receivables from exchange transactions

This is due to correction of a prior year journal.

#### Receivables from non-exchange transactions

This is due to correction of a prior year journal.

#### Property, plant and equipment

The restatement was due to assets that were not previously capitalised which were sitting under WIP which resulted in the depreciation being recalculated.

#### Unspent conditional grants

The restatement was due to the journal that was double counted in the previous year under government and subsidies received.

#### Provisions

The provisions was restated due to the provision for landfill site recalculated by the expert.

#### Payables from exchange transactions

This is to accrual of expenditure relating to task upgrade that was not accounted for..

#### Commitments

An additional amount of contractors that were previously not included in the commitments register.

### 55. Going concern

We draw attention to the fact that at June 30, 2018, the municipality had an profit R 63,280,177 and that the municipality's total liabilities exceed its assets by R 2,471,973,216.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

# King Sabata Dalindyebo Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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### 55. Going concern (continued)

The total assets exceed the total liabilities by R2.4 billion, the municipality is in a net current liability situation when compared to current assets. In addition, the current liabilities that require settlement amounts to R466,6 million. The municipality will receive R635,6 million worth of grants as gazetted in the 2018/19 financial year Division of Revenue Act. Equitable share amounts to R292,1 million and a further R343,5 million relates to other capital and non-capital grants.

Eskom amount payable amounts to R103,9 million whereas the total gross receivables relating to rates and services amounts to R570,5 million. The electricity portion amounts to R36,5 million. The municipality, in the preparation of the 2018/19 budget, has taken onto account balances owed to Eskom in relation to the arrear arrangement. This has been included in the bulk purchases budget for the year as guided by the National Treasury. The municipality will increase efforts to recover the substantial arrears via the tools provided within the municipality's credit policy. The municipality has other potential revenue collection strategies such as allocation of current receipting against historical debt, limited amnesty, collections of other service debts via the prepaid system, door to door campaign and debt collection agents.

The 2017/18 approved budgeted per the Municipal Annual Budget and MTREF schedules shows Revenue of R1,129 billion and expenditure of R1,125 billion, with an accounting surplus of R3,998 million. When adjusting for non-cash flow items such as depreciation, impairments and loss on sale of assets that accounting surplus increase to R112,4 million. The MTREF A7 table show a budgeted cash flows surplus of R54,7 million. The surplus cash flow accounts for the future capital additions of R294,2 million and other financing activities. Included in the future capital additions are current year's capital commitments.

The municipality has a number of contingencies listed within the Annual Financial Statements. A contingent liability is a potential liability that may occur, depending on the outcome of an uncertain future event. Should a contingent liability translate into an actual liability, the municipality will, if required revisit its current budgets to ensure that the liability is settled as required.

In addition to the above, the municipality plans to finance this shortfall through the following measures:

- Cut backs on discretionary spending
- Proposed review of disposing of non-core assets such as fleet which are costly to maintain or not required
- Negotiating with strategic partners such as COGTA in order to find solutions on alleviating some of the debt from Eskom as they have done in the prior years and
- Negotiating payment terms with bulk creditors such as Eskom, which accounts for 22% of total current liabilities, in order ease the burden on current cash flows