



King Sabata Dalindyebo Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Nature of business and principal activities

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

Mayoral committee

Executive Mayor	Cllr G N Nelani
Speaker	Cllr T G Maqoko
Chief Whip	Cllr M Nyoka
Members of the Mayoral Committee	Cllr N R Gcingca Cllr S Nyengane Cllr N Sibeko Cllr Z Madyibi Cllr L N Ntlonze Cllr M T Mtirara Cllr T Machaea Cllr T E Mapekula
Councillors	Cllr J Voko Cllr Z D Kutu Cllr M Mabaso 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 M Marasha (Start Date - 11/10/2019) Cllr B Bikani Cllr X M Mbongwana Cllr M Mkhetheli 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 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

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General Information

Cllr M Gogo
Cllr N Ngqongwa
Cllr N Pali
Cllr N Nyangani
Cllr M Mpangele
Cllr M Fukula (Start Date - 12/07/2019)
Cllr R Knock
Cllr A Mgquba
Cllr L M Luwaca
Cllr U N V Malghas
Cllr N M Nqwazi
Cllr Z Gana (Start Date - 12/06/2020)
Cllr N Mtwa
Cllr N A Sobahle
Cllr L P Zuma
Cllr M A Manzolwandle
Cllr B Malghas
Cllr L A Tshiseka
Cllr N P Ngalo
Cllr D M Zozo
Cllr NO Mgugudo (Start Date - 11/10/2019 End Date 01/05/2020) Deceased
Cllr N Siyo-Sokutu (End Date 01/08/2019)

Grading of local authority

Grade 4

Chief Finance Officer

Mr E Jiholo

Accounting Officer

Mr N Pakade

Registered office

Munitata Building
Sutherland Street
Mthatha

Postal address

Private Bag X5083
Mthatha
5099
5099

Bankers

ABSA
FNB

Auditors

Auditor General South Africa
Registered Auditors

King Sabata Dalindyebo Local Municipality

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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
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
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

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Accounting officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for the content and integrity of the 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 municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the 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 municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 5 to 79, which have been prepared on the going concern basis, were approved by the 31 October 2020 and were signed on its behalf by:

**Accounting Officer
Mr N Pakade**

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	3	66 320 225	67 733 642
Receivables from exchange transactions	4	48 850 321	51 398 957
Receivables from non-exchange transactions	5	59 552 149	47 091 773
VAT receivable	6	6 658 081	1 973 003
Cash and cash equivalents	7	26 182 479	22 263 053
		207 563 255	190 460 428
Non-Current Assets			
Investment property	8	322 840 105	318 382 747
Property, plant and equipment	9	2 065 990 478	2 170 062 556
Intangible assets	10	1 589 760	533 429
Heritage assets	11	3 201 000	3 201 000
		2 393 621 343	2 492 179 732
Total Assets		2 601 184 598	2 682 640 160
Liabilities			
Current Liabilities			
Other financial liabilities	12	4 194 796	12 897 505
Finance lease obligation	13	20 366 489	17 895 063
Payables from exchange transactions	14	456 447 399	404 118 608
Consumer deposits	15	36 254 318	18 180 959
Unspent conditional grants and receipts	16	14 967 506	14 412 365
		532 230 508	467 504 500
Non-Current Liabilities			
Other financial liabilities	12	10 459 332	14 627 799
Finance lease obligation	13	55 459 679	73 791 580
Provisions	17	50 575 138	48 480 121
		116 494 149	136 899 500
Total Liabilities		648 724 657	604 404 000
Net Assets			
Reserves			
Revaluation reserve	18	383 988 031	383 988 031
Self-insurance reserve	19	3 801 185	3 681 232
Accumulated surplus		1 564 670 725	1 690 566 897
Total Net Assets		1 952 459 941	2 078 236 160

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	472 558 996	428 198 502
Rental of facilities and equipment	21	13 025 447	19 563 991
Licences and permits	22	11 582 958	12 472 546
Other income	25	53 579 870	15 028 513
Investment revenue	26	51 106 175	48 716 810
Fair value adjustments	41	4 457 358	9 910 301
Total revenue from exchange transactions		606 310 804	533 890 663
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	218 351 223	216 698 664
Transfer revenue			
Government grants and subsidies	28	475 613 729	423 722 101
Public contributions and donations	29	-	16 716 500
Fines, penalties and forfeits	23	2 125 224	2 726 802
Total revenue from non-exchange transactions		696 090 176	659 864 067
Total revenue	30	1 302 400 980	1 193 754 730
Expenditure			
Employee related costs	31	(460 170 866)	(432 476 507)
Remuneration of councillors	32	(28 299 925)	(27 574 446)
Depreciation and amortisation	33	(180 093 871)	(180 992 244)
Impairment loss	34	(30 776 420)	(432 521)
Finance costs	35	(36 295 920)	(26 327 671)
Lease rentals on operating lease	24	(3 888 520)	(7 675 990)
Debt Impairment	36	(117 035 622)	(84 339 706)
Bulk purchases	37	(315 810 587)	(268 269 413)
Contracted services	38	(10 730 085)	(7 550 879)
Grants and Subsidies paid	39	(47 102 914)	(59 646 881)
Loss on disposal of assets		(8 417 035)	(3 522 904)
General Expenses	40	(188 303 665)	(185 448 606)
Total expenditure		(1 426 925 430)	(1 284 257 768)
Deficit for the year		(124 524 450)	(90 503 038)

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Insurance reserve	Total reserves	Accumulated Surplus	Total net assets
Opening balance as previously reported	383 988 031	3 566 825	387 554 856	2 043 289 830	2 430 844 686
Adjustments	-	-	-	(266 855 237)	(266 855 237)
Prior year adjustments	-	-	-	(266 855 237)	(266 855 237)
Balance at 01 July 2018 as restated*	383 988 031	3 566 825	387 554 856	1 776 434 593	2 163 989 449
Changes in net assets					
Movement in self insurance reserve	-	114 407	114 407	-	114 407
Transactions posted Directly to Accumulated Surplus	-	-	-	4 635 342	4 635 342
Net income (losses) recognised directly in net assets	-	114 407	114 407	4 635 342	4 749 749
Surplus for the year	-	-	-	(90 503 038)	(90 503 038)
Total recognised income and expenses for the year	-	114 407	114 407	(85 867 696)	(85 753 289)
Total changes	-	114 407	114 407	(85 867 696)	(85 753 289)
Balance at 01 July 2019 restated	383 988 031	3 681 232	387 669 263	1 690 566 898	2 078 236 161
Changes in net assets					
Movement in self insurance reserve	-	119 953	119 953	-	119 953
Transactions posted directly to accumulated surplus	-	-	-	(1 371 723)	(1 371 723)
Net income (losses) recognised directly in net assets	-	119 953	119 953	(1 371 723)	(1 251 770)
Surplus for the year	-	-	-	(124 524 450)	(124 524 450)
Total recognised income and expenses for the year	-	119 953	119 953	(125 896 173)	(125 776 220)
Total changes	-	119 953	119 953	(125 896 173)	(125 776 220)
Balance at 30 June 2020	383 988 031	3 801 185	387 789 216	1 564 670 725	1 952 459 941

Note(s)

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King Sabata Dalindyebo Local Municipality

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Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Taxation		161 491 929	167 141 301
Receipts from Customers		478 099 349	454 647 175
Grants		475 613 729	423 722 101
Interest income		51 106 175	48 716 810
		1 166 311 182	1 094 227 387
Payments			
Employee costs		(488 470 791)	(460 050 953)
Suppliers		(542 021 656)	(579 117 924)
Finance costs		(36 295 919)	(26 327 671)
		(1 066 788 366)	(1 065 496 548)
Net cash flows from operating activities	43	99 522 816	28 730 839
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(87 382 713)	(41 365 180)
Proceeds from sale of property, plant and equipment	9	3 272 060	3 402 906
Purchase of other intangible assets	10	(1 212 940)	-
Acquisition of Self Insurance		119 953	114 407
Net cash flows from investing activities		(85 203 640)	(37 847 867)
Cash flows from financing activities			
Repayment of other financial liabilities		(12 871 176)	52 810
Movement in finance lease		2 471 426	3 961 213
Net cash flows from financing activities		(10 399 750)	4 014 023
Net decrease in cash and cash equivalents		3 919 426	(5 103 005)
Cash and cash equivalents at the beginning of the year		22 263 053	27 366 058
Cash and cash equivalents at the end of the year	7	26 182 479	22 263 053

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	538 033 653	(2 000 000)	536 033 653	472 558 996	(63 474 657)	
Rental of facilities and equipment	29 540 451	502 743	30 043 194	13 025 447	(17 017 747)	
Licences and permits	18 934 275	-	18 934 275	11 582 958	(7 351 317)	
Other income	45 946 795	4 820 206	50 767 001	53 579 870	2 812 869	
Interest received	50 256 023	3 620 862	53 876 885	51 106 175	(2 770 710)	
Total revenue from exchange transactions	682 711 197	6 943 811	689 655 008	601 853 446	(87 801 562)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	246 182 733	-	246 182 733	218 351 223	(27 831 510)	
Transfer revenue						
Government grants & subsidies	355 575 128	3 825 777	359 400 905	475 613 729	116 212 824	
Fines, Penalties and Forfeits	4 872 370	-	4 872 370	2 125 224	(2 747 146)	
Total revenue from non-exchange transactions	606 630 231	3 825 777	610 456 008	696 090 176	85 634 168	
Total revenue	1 289 341 428	10 769 588	1 300 111 016	1 297 943 622	(2 167 394)	
Expenditure						
Personnel						
Remuneration of councillors	(491 190 644)	36 127 721	(455 062 923)	(460 170 866)	(5 107 943)	
Depreciation and amortisation	(29 178 027)	(835 845)	(30 013 872)	(28 299 925)	1 713 947	
Impairment loss/ Reversal of impairments	(108 119 982)	-	(108 119 982)	(180 093 871)	(71 973 889)	
Finance costs	-	-	-	(30 776 420)	(30 776 420)	
Debt Impairment	(29 969 854)	10 000 000	(19 969 854)	(36 295 920)	(16 326 066)	
Debt Impairment	(17 782 261)	4 831 180	(12 951 081)	(3 888 520)	9 062 561	
Bulk purchases	(29 484 000)	(35 142 000)	(64 626 000)	(117 035 622)	(52 409 622)	
Grants and Subsidies Paid	(337 197 359)	-	(337 197 359)	(315 810 587)	21 386 772	
Grants and Subsidies Paid	(6 668 689)	(4 967 164)	(11 635 853)	(10 730 085)	905 768	
General Expenses	(58 954 617)	(3 949 069)	(62 903 686)	(47 102 914)	15 800 772	
Total expenditure	(1 285 575 897)	(26 620 292)	(1 312 196 189)	(1 418 508 395)	(106 312 206)	
Operating deficit						
Fair value adjustments	3 765 531	(15 850 704)	(12 085 173)	(120 564 773)	(108 479 600)	
Gains on disposal of non-current assets	-	-	-	4 457 358	4 457 358	
	1 507 353	-	1 507 353	(8 417 035)	(9 924 388)	
	1 507 353	-	1 507 353	(3 959 677)	(5 467 030)	
Deficit before taxation	5 272 884	(15 850 704)	(10 577 820)	(124 524 450)	(113 946 630)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	5 272 884	(15 850 704)	(10 577 820)	(124 524 450)	(113 946 630)	

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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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. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of the annual financial statements are disclosed below.

1.1 Going concern assumption

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

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.3 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:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables and other receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables calculated on individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Useful lives of Property, plant and equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.4 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.

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

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.

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

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

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

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

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Accounting Policies

1.4 Investment property (continued)

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

1.5 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 recognised as an asset when:

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

Property, plant and equipment 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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Item	Average useful life
Land	infinite
Buildings	5 - 50 years
Plant and machinery	5 - 10 years
Furniture and fixtures	3 - 5 years
Office equipment	5 - 7 years
IT equipment	5 - 7 years
Computer software	3 - 5 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 - 50 years
- Recreational equipment	20 - 30 years
- Security	5 years
- Halls	30 years
- Libraries	30 - 50 years
- Parks and gardens	20 - 30 years
- Sport fields	20 - 30 years
Other property, plant and equipment	
- Other vehicles	5 years
- Other items of plant and equipment	7 - 10 years
- Landfill sites	4-30 years
- Fire engines	10 - 20 years
Bins and containers	5 years
Other leased assets	
- Motor vehicles	5-20 years
Laboratory equipment	5 - 7 years
Specialised vehicles	10 years
Heritage assets	Infinite
Cemetery	25 - 30 years
Stadium	25 - 30 years

The 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 municipality. 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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality's 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 municipality 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 deficit unless it is included in the carrying amount of another asset.

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

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

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

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

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

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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 these intangible assets on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life

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Accounting Policies

1.6 Intangible assets (continued)

Computer software, other

Straight-line

3 - 5 years

The municipality 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.

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

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

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

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

Impairment

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

Transfers

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

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

Derecognition

The municipality recognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

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Accounting Policies

1.8 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, the 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.

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:

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Accounting Policies

1.8 Financial instruments (continued)

Class

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

Category

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

Other financial liabilities - Long term
Other financial liabilities - short term
Payables from exchange transactions

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

1.9 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

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.

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Accounting Policies

1.10 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

Any contingent rents are expensed in the period in which they are incurred.

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 the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

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

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

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

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

1.12 Construction contracts and receivables

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

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

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

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

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

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

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Accounting Policies

1.12 Construction contracts and receivables (continued)

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

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

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

1.13 Impairment of cash-generating assets

Cash-generating assets are 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.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification of a potential impairment

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

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

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

Value in use

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

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

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

Recognition and measurement of cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses 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 as surplus or deficit.

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

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets 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.

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.

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Accounting Policies

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

Identification

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

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

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

Value in use

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.15 Employee benefits

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

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

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

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.

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1.15 Employee benefits (continued)

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

A constructive obligation is an obligation that derives from ~~an 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.

When an employee has rendered service to the entity during a reporting period, the entity recognises 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 recognises 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.

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 ~~an entity~~ provides post-employment benefits for one or more 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 recognises 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~~ recognises 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 Local Municipality

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Accounting Policies

1.15 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.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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 16.

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

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.17 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

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.

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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.

Interest, royalties and dividends

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

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

Interest is recognised using the effective interest rate method.

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

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

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

1.19 Revenue from non-exchange transactions

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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 entity.

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 entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it 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 entity.

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

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

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

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

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

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

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

Transfers

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

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

Fines

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

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

Where the entity 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 municipality and the fair value of the assets can be measured reliably.

Services in-kind

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

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

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Accounting Policies

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to themunicipality, and the costs can be measured reliably. Themunicipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of themunicipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

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

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

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

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

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

1.21 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires themunicipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If themunicipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. Themunicipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether themunicipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant standards of GRAP.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.21 Accounting by principals and agents (continued)

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.23 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.

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.

1.24 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.

1.25 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.

1.26 Segment information

A segment is an activity of an entity:

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

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

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

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Accounting Policies

1.27 Budget information

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

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

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

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

1.28 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 those family members who may be expected to influence, or be influenced by that person 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

1.29 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.

1.30 Value added tax (VAT)

The municipality accounts for VAT on an accrual basis and is registered with the South African Revenue Services (SARS) for VAT on the payments (cash) basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

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Accounting Policies

1.31 Consumer deposits

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

1.32 Unspent conditional grants

This is represented funds unspent at the end of the financial year on grants received from national and provincial government or any other external party that can only be spent for the condition for which it was received. The amount is recognised as a current liability until the conditions of the grant are met or the money is transferred back to the funder.

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Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 13: Transitional Provisions for the Adoption of Standards GRAP by Community Education and Training (CET) Colleges	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact

3. Inventories

Land - Held for transfers	52 404 500	52 404 500
Consumables Stores	2 269 480	2 164 124
Electrical Equipment	11 646 245	13 165 018
	66 320 225	67 733 642

Inventories recognised as an expense during the year 2 106 712 2 363 801

4. Receivables from exchange transactions

Creditors with debit balances	-	344 773
Consumer debtors Other	99 344	9 809
Consumables Sundry Debtors	1 108 430	1 624 456
Consumer debtors - Electricity	67 992 396	47 124 017
Consumer debtors - Refuse	205 137 178	164 527 637
Consumer debtors - Rentals	154 960 324	145 578 912
Provision for Impairment	(380 447 351)	(307 810 647)
	48 850 321	51 398 957

Trade and other receivables pledged as security

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

King Sabata Dalindyebo Local Municipality

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4. Receivables from exchange transactions(continued)

Fair value of trade and other receivables

Trade and other receivables	48 843 029	51 398 957
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The fair value of trade and other receivables from exchange transactions approximates their carrying amount.

Trade and other receivables past due but not impaired

The normal credit term for the municipality is 30 days. As of 30 June 2020, receivables of R 26 565 206 (2019: R 19 703 682) were past due but not impaired.

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

1 month past due	10 287 726	7 761 768
2 months past due	2 642 663	2 498 284
3 months past due	1 429 847	1 146 242
Over 3 months	9 686 385	5 977 192
Penalties and interest	2 518 586	2 320 196

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 380 460 331 (2019: R 307 810 647) were impaired and provided for.

The ageing of these amounts is as follows:

1 to 3 months	44 291 564	19 103 407
3 to 6 months	17 334 684	8 370 602
Over 6 months	218 380 092	192 486 202
Penalties and interest	100 453 990	87 850 436

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

Electricity -Ageing

Current	16 947 166	20 020 321
31 - 60 days	11 137 929	8 272 832
61 - 90 days	3 789 415	2 585 187
91 - 120 days	3 292 896	1 071 449
> 120 days	23 632 465	7 670 431
Penalties and interest	4 737 159	3 234 909
Add: Debtors with credit balances	4 448 074	4 268 888
	67 985 104	47 124 017

Refuse - Ageing

Current	3 666 288	2 477 101
31 - 60 days	3 016 406	1 961 532
61 - 90 days	2 288 514	1 989 249
91 - 120 days	2 523 540	1 637 737
> 120 days	143 858 678	117 644 087
Penalties and interest	49 378 145	38 785 820
Add: Debtors with credit balances	405 607	32 111
	205 137 178	164 527 637

Rentals - Ageing

Current	524 874	1 365 703
31 - 60 days	1 337 352	1 328 901
61 - 90 days	1 283 958	1 127 550

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4. Receivables from exchange transactions(continued)				
91 - 120 days	1 185 292	1 079 071		
> 120 days	91 501 754	82 907 989		
Penalties and interest	58 205 618	50 833 784		
Add: Debtors with credit balances	921 476	6 935 914		
	154 960 324	145 578 912		
Sundry debtors- Ageing				
Current	-	-		
31 - 60 days	-	-		
61 - 90 days	-	-		
> 120 days	1 108 430	1 624 456		
Penalties and interest	-	-		
	1 108 430	1 624 456		
Reconciliation of provision for impairment of trade and other receivables				
Opening balance	307 810 647	265 133 092		
Provision for impairment	72 636 704	42 677 555		
	380 447 351	307 810 647		
Summary of debtors by customer classification				
as at 30 June 2020				
Consumers	Industrial/ Commercial	Government	Total	
Current	(4 866 214)	9 468 599	616 135	5 218 520
31 - 60 days	2 647 317	9 514 594	3 064 746	15 226 657
61 - 90 days	2 502 424	3 314 004	1 310 198	7 126 626
91 - 120 days	2 430 074	3 740 041	657 944	6 828 059
>120 days	199 734 069	44 496 024	6 281 574	250 511 667
Penalties and interest	90 931 956	17 082 065	1 451 326	109 465 347
Less provision for impairment	293 379 626	87 615 327	13 381 923	394 376 876
Debtor with Credit balances	(299 039 437)	(71 330 412)	-	(370 369 849)
	8 392 519	8 971 916	3 519 789	20 884 224
	2 732 708	25 256 831	16 901 712	44 891 251
Summary of debtors by customer classification				
as at 30 June 2019				
Consumers	Industrial/ Commercial	Government	Total	
Current	2 773 422	17 357 270	3 732 432	23 863 124
31 - 60 days	2 288 942	8 371 488	902 834	11 563 264
61 - 90 days	2 189 219	2 982 874	529 893	5 701 986
91 - 120 days	2 113 399	1 424 005	250 854	3 788 258
>120 days	170 467 965	34 183 462	5 205 346	209 856 773
Penalties and interest	75 534 993	15 622 057	1 697 464	92 854 514
Less provision for impairment	255 367 940	79 941 156	12 318 823	347 627 919
	(253 151 503)	(54 659 143)	-	(307 810 646)
	2 216 437	25 282 013	12 318 823	39 817 273

King Sabata Dalindyebo Local Municipality

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5. Receivables from non-exchange transactions

Impairment	(318 124 451)	(273 725 534)
Consumer debtors old balances	37 425	69 824
Other receivables from non-exchange revenue	471 725	471 725
Consumer debtors - Rates	376 523 530	320 275 758
Other Debtors - Staff Houses Sell	643 920	-
	59 552 149	47 091 773

Statutory receivables included in receivables from non-exchange transactions above are as follows:

Consumer debtors - Rates	376 523 530	320 275 758
Consumer debtors old balances	37 425	69 824
Impairment	(318 124 451)	(273 725 534)
	58 436 504	46 620 048

Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:

Other receivables from non-exchange revenue	471 725	471 725
Other Debtors - Staff Houses	643 920	-
	1 115 645	471 725

Total receivables from non-exchange transactions

59 552 149 47 091 773

Statutory receivables general information

Transaction(s) arising from statute

Included in Receivables from non-exchange transactions are statutory receivables of 2020: R59 552 149 (2019: R47 091 773)

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset. Property Rates arise from the MUNICIPAL PROPERTY RATES ACT NO. 6 OF 2004 as amended by Municipal Property Rates Amendment Act, No. 29 of 2014. This should be read together with Government Gazette 32061, updated by Government Gazette 38259 dated 28 November 2014. Statutory receivables transaction amounts is determined via the municipalities approved rates policy.

Impairment of Statutory receivables are assessed based on indicators that exist at each reporting date. These include but not limited to payment history and the customers overall profile.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	59 552 149	47 091 773
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5. Receivables from non-exchange transactions(continued)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 8 months past due are not considered to be impaired. As 30 June 2020, R 43 560 969 (2019: R 42 031 531) were past due but not impaired.

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

1 month past due	1 764 932	1 224 505
2 months past due	1 189 907	743 703
3 months past due	829 232	1 289 093
More than 3 months past due	33 128 764	33 950 341
Penalties and Interest	6 648 133	4 823 889

Receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 318 124 451 (2019: R 273 725 534) were impaired and provided for.

The amount of the provision was R (380 447 351) as of 30 June 2020 (2019: R (265 133 092)).

The ageing of these loans is as follows:

1 to 3 months	18 768 436	12 632 739
3 to 6 months	11 405 451	10 926 929
Over 6 months	216 079 923	189 200 870
Penalties and Interest	71 888 027	60 964 995

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

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

Opening balance	273 725 534	232 251 220
Provision for impairment	44 398 917	41 474 314
	318 124 451	273 725 534

6. VAT receivable

VAT	6 658 081	1 973 003
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King Sabata Dalindyebo Local Municipality

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7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand		1 050	1 050
Bank balances		16 438 732	14 203 291
Own investments- Short term		4 394 199	7 229 348
Other cash and cash equivalents		5 348 498	829 364
		26 182 479	22 263 053

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:

Cash and cash equivalents pledged as collateral

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
FNB Call Account 62090323636	1 735 119	1 441 484	3 276 778	2 714 957	1 441 484	3 276 778
ABSA Call Account 4061496604	10 919 767	8 826 210	2 815 749	10 271 210	8 826 210	2 815 749
ABSA Cheque Account 4048218780	958 448	876 644	561 735	958 448	876 654	561 735
Self Insurance Reserve (Holland Insurance Company - Experience Account)	3 801 159	3 681 207	3 566 825	3 801 159	3 681 207	3 566 825
ABSA Call Account MTAB 9061932550	47 182	45 037	541 432	47 182	45 229	541 432
Unclaimed Group Life Insurance ABSA 9057846202	6 600	2 802 546	2 678 362	6 637	2 814 524	2 678 362
ABSA Target Save - Various Accounts	217 583	208 284	198 231	217 583	208 284	198 231
Investic Bank Invest 1100456924	275 321	260 056	243 731	275 321	260 056	243 731
ABSA Call Account Ngangelizwe ISUP 9264472169	-	-	277 773	-	-	277 773
ABSA Call Account KSD Election 9260118662	126 596	120 872	115 362	126 596	121 389	115 362
ABSA Call Account Mqanduli Miling 9118441412	-	3 276	3 466	3 173	3 260	3 438
ABSA Call Account Rural Planning 9260110101	146 688	140 055	133 670	146 688	140 654	133 643
ABSA Call Account Organogram Dev 9260110397	9 580	9 178	310 007	9 580	9 217	311 300
ABSA Call Account Mqanduli Middle Income 9095799392	57 306	54 702	351 277	57 306	54 935	351 277
FNB Cheque 62471836513	683 111	3 732 961	9 462 427	25 834	3 247 342	9 569 110
FNB Call 62480366345 DOE Electrification	60 871	42 469	39 943	60 871	42 469	39 943
FNB Call 62480370031FMG	1 351 704	19 820	17 890	1 351 704	19 820	17 890
FNB Call Account 62480368838	76 897	173 743	84 136	76 897	173 743	84 136
MIG Account UCCMIP						
FNB Call Account 62480372863 Library	54 849	429	406	54 849	429	406

King Sabata Dalindyebo Local Municipality

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7. Cash and cash equivalents (continued)					
FNB Call Account 62486520151	30 799	17 465	416 466	30 799	17 465
Infrastructure Skills Dev					
FNB Call Account 62500280516	-	4 513	4 484	-	4 513
LED Support					
FNB Call Account 62500281936	-	1 886	1 874	-	1 886
Chamber of Mines					
FNB Call Account 62504407801	-	37 818	37 110	-	37 818
Ngangelizwe Urban Ren					
FNB Call Account 62504410383	-	53 954	52 679	-	53 954
Fire Station					
FNB Call Account 62504411315	-	-	281 005	-	-
ISUP Phola Park					
FNB Call Account 62504413741	-	-	24 025	-	-
Transkei United Dairies					
FNB Call Account 62504414608	-	9 032	285 895	-	9 032
Maydene Farm Extension					
FNB Call Account 62504418022	-	-	56 994	-	-
ISUP Hillcrest					
FNB Call Account 62504444639	17 443	9 778	147 907	17 443	9 778
DOT Taxi Rank					
FNB Call Account 62505830811	-	-	437 741	-	-
ISUP Joe Slovo					
FNB Call Account 62523941070	75 909	71 952	67 670	75 909	71 952
New Brighton					
FNB Call Account 62523942408	12 500	11 848	11 143	12 500	11 848
Kei Rail					
FNB Call Account 62557024785	-	-	58 510	-	-
H S Graduates					
FNB Call Account 62559404092	93 499	265 277	13 500	93 499	265 277
Asset Financing					
FNB Call Account 62709676582 (DOT Payover Account)	2 163 934	269 702	675 133	2 163 475	269 702
FNB Cheque Account 62810696487	314 056	21 344	-	304 806	21 344
FNB - Covid Account	3 277 000	-	-	3 277 000	-
Total	26 513 921	23 213 542	27 251 336	26 181 426	22 741 475
					27 366 277

King Sabata Dalindyebo Local Municipality

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8. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	322 840 105	-	322 840 105	318 382 747	-	318 382 747

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	318 382 747	4 457 358	322 840 105

Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	309 116 446	(644 000)	9 910 301	318 382 747

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 available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 31 December 2019. 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 Local Municipality

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9. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	307 359 366	-	307 359 366	308 037 866	-	308 037 866
Buildings	289 045 006	(92 563 127)	196 481 879	300 055 961	(76 461 683)	223 594 278
Infrastructure	2 963 608 518	(1 948 365 031)	1 015 243 487	2 942 624 400	(1 830 579 120)	1 112 045 280
Community	388 204 873	(110 383 805)	277 821 068	381 570 890	(94 231 452)	287 339 438
Other property, plant and equipment	27 866 733	(23 012 375)	4 854 358	25 001 347	(19 799 955)	5 201 392
Work In Progress	183 568 245	-	183 568 245	128 764 390	-	128 764 390
Specialised vehicles	154 756 594	(74 094 519)	80 662 075	152 489 299	(47 409 387)	105 079 912
Total	4 314 409 335	(2 248 418 857)	2 065 990 478	4 238 544 153	(2 068 481 597)	2 170 062 556

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals / Impairment	Transfers(In/Out)	Depreciation	Total
Land	308 037 866	-	(678 500)	-	-	307 359 366
Buildings	223 594 278	-	(11 010 595)	-	(16 101 804)	196 481 879
Infrastructure	1 112 045 280	20 984 119	-	-	(117 785 912)	1 015 243 487
Community	287 339 438	6 633 983	-	-	(16 152 353)	277 821 068
Other property, plant and equipment	5 201 392	2 865 386	-	-	(3 212 420)	4 854 358
Work In Progress	128 764 390	115 825 760	(31 112 172)	(29 909 733)	-	183 568 245
Specialised vehicles	105 079 912	2 267 295	-	-	(26 685 132)	80 662 075
	2 170 062 556	148 576 543	(42 801 267)	(29 909 733)	(179 937 621)	2 065 990 478

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers/Write off	Reclassification from investment Property	Depreciation	Total
Land	291 799 366	16 716 500	(1 122 000)	-	644 000	-	308 037 866
Buildings	239 407 358	1 515 500	-	-	-	(17 328 580)	223 594 278
Infrastructure	1 125 959 429	-	(2 280 906)	111 301 583	-	(122 934 826)	1 112 045 280
Community	280 645 888	-	-	23 034 739	-	(16 341 189)	287 339 438
Other property, plant and equipment	5 597 984	1 294 983	-	-	-	(1 691 575)	5 201 392
Work In Progress	219 464 870	110 195 950	-	-	(200 896 430)	-	128 764 390
Specialised vehicles	77 351 192	51 243 941	-	-	-	(23 515 221)	105 079 912
	2 240 226 087	180 966 874	(3 402 906)	134 336 322	(200 252 430)	(181 811 391)	2 170 062 556

King Sabata Dalindyebo Local Municipality

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9. Property, plant and equipment (continued)

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, was ceded to PIC as security for a loan.:

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

Properties as disclosed above includes the following categories of properties:

- Building transferred to KSD Municipality by Department of Public Works whereby occupants have not signed lease agreements with the municipality, and
- Vacant land owned by the Municipality with buildings to other parties including Department of Public Works where there are no lease agreements for the land. The Department of Public Works has acknowledged that they have built in the municipality's land and they have requested the municipality to transfer the land to them. The municipality is still awaiting council approval for the transfer back to Department of Public Works.

Details of Work In Progress

Community Assets	3 508 772	5 139 638
Infrastructure Assets	207 897 430	123 624 752
	211 406 202	128 764 390

WIP Slow moving / halted projects during the year

Project Name	Project: State Date	Project: End Date	Reasons for delays	Expenditure to Date	
Christ Hani, Marambeni Internal Street_A	05/03/2019	30/04/2021	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	3 033 826
Nyokinala to Mbozwana Access Road	07/07/2019	14/04/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	6 535 478

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9. Property, plant and equipment (continued)

Silverton Access Road	12/03/2018	12/09/2019	The contractor has to stop working because of borrow pit issues where the community was reforing the use of their borrow pit and also All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	1 904 335
Mncakathini to Phesheya ko Lwalwa Access Roads	17/06/2020	30/05/2021	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	-
Haji to Kunene via Mncwasa Access Road	05/11/2019	30/05/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	1 860 731
Rosedale Community Hall	03/02/2020	05/08/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	464 343
Rehabilitation of Elliot street	15/09/2018	27/04/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	27 855 437
Jubilee Taxi rank	18/12/2019	18/06/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	1 145 900
Upper Ngqwara Access Road	16/09/2019	16/04/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	2 785 206

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9. Property, plant and equipment (continued)

14 Sai Access Road	25/01/2019	22/09/2019	There were delays due to an additional scope of work. All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	5 356 239
Mxambule to Jojweni Access Road	28/10/2019	28/05/2020	All PMU projects were affected by Covid_19, contractors de-established in March 2020 and returned back to site in June 2020. As a result extension of time was granted to the contractors for time lost.	-	2 005 448
Upgrading of Chatam to Tembu Street	13/07/2018	13/08/2019	There were delays due to an additional scope of work, furthermore they were material delays as the project was than due to be completed in February 2020. The contractor failed and penalties were imposed	-	17 521 877
Maydene Farm Ext. Project A 1317 units	04/05/2016	30/09/2021	- Due to the Covid -19, the South African Government imposed lockdown stage 5 from the 26th March 2020 and contractors had to close all activities on site. That resulted in halting all construction activities on site until the end of September 2020 when it was again announced that contractors can resume work on site.	-	49 723 751
					- 117 158 745

Compensation received for losses on property, plant and equipment – included in operating profit.

Assets subject to finance lease

Included under specialised motor vehicles are 90 vehicles which are under finance lease from Wesbank/FNB with a total carrying amount of R83 207 251 (2019: R83 207 251). Refer to Note 13 "Finance Lease Obligation" for additional information.

Revaluations

King Sabata Dalindyebo Local Municipality

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9. Property, plant and equipment(continued)

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..

Property, plant and equipment in the process of being constructed or developed

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..

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10. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 628 977	(2 039 217)	1 589 760	2 416 037	(1 882 608)	533 429

Reconciliation of intangible assets - 2020

Computer software, other	Opening balance	Additions	Depreciation	Total
	533 429	1 212 940	(156 609)	1 589 760

Reconciliation of intangible assets - 2019

Computer software, other	Opening balance	Depreciation	Total
	666 436	(133 007)	533 429

Pledged as security

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

King Sabata Dalindyebo Local Municipality

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11. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Recreational parks	3 201 000	-	3 201 000	3 201 000	-	3 201 000

Reconciliation of heritage assets 2020

Recreational parks	Opening balance	Total
	3 201 000	3 201 000

Reconciliation of heritage assets 2019

Recreational parks	Opening balance	Total
	3 201 000	3 201 000

King Sabata Dalindyebo Local Municipality

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12. Other financial liabilities

At amortised cost

Annuity Loan DBSA	14 654 128	19 020 796
DBSA loan 61001245 was 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	-	8 504 508
PIC loan was 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.		
	14 654 128	27 525 304

At amortised cost

Annuity Loan PIC	-	-
Non-current liabilities		
Designated at amortised cost	10 459 332	14 627 799

Current liabilities		
Designated at amortised cost	4 194 796	12 897 505

King Sabata Dalindyebo Local Municipality

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13. Finance lease obligation

Minimum lease payments due

- within one year	27 357 196	26 756 536
- in second to fifth year inclusive	62 321 551	87 159 301
	<hr/>	<hr/>
less: future finance charges	89 678 747 (13 897 177)	113 915 837 (22 273 790)

Present value of minimum lease payments

75 781 570 91 642 047

Present value of minimum lease payments due

- within one year	20 366 489	17 895 063
- in second to fifth year inclusive	55 415 081	73 791 580
	<hr/>	<hr/>
	75 781 570	91 686 643

Non-current liabilities

55 459 679 73 791 580

Current liabilities

20 366 489 17 895 063

75 826 168 91 686 643

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 R75 826 168 (2019: R91 686 643) and attracts an average interest rate of 10.850% (2019: 10.850%) per annum.

The above was a facility of R120 million and R59.3 million (2019: R59.3 million) has been utilised.

14. Payables from exchange transactions

Trade payables	282 559 549	206 131 446
BT Ngebs and Whirlprops Creditors	6 944 991	6 379 356
Operating lease smoothing	21 571	21 571
Deferred interest	20 615	20 615
Salaries - Staff Allowances	102 241	8 063 291
Income Received In Advance	2 694 060	2 468 554
Salary payovers	37 448 782	59 023 512
Staff Prepaid Houses	1 075 999	1 075 999
Study Loans	23 866	23 514
Retentions	12 815 690	11 883 590
Unknown Deposits	2 634 722	2 886 569
Insurance Claims	2 500	2 500
Other payables	33 345 419	26 919 825
Deposits received	1 167 280	956 294
Accrued expense	23 551 188	19 196 992
Accrued Leave Pay and Bonus	50 024 654	57 050 740
Unclaimed Group Life	2 014 272	2 014 240
	<hr/>	<hr/>
	456 447 399	404 118 608

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

15. Consumer deposits

Electricity	36 254 318	18 180 959
	<hr/>	<hr/>

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

National: Department of Energy- Electrification Projects	(131 017)	(26 938)
Provincial: Municipal Infrastructure Grant	(384 631)	(590 956)
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
Infrastructure Skills Development	2 104 825	-
Human Settlements Projects	3 379 074	3 386 659
Electricity Demand Side Management	32 394	144 036
FMG	1 351 704	-
Provincial : Organogram Development	294 477	294 477
Provincial: MTAB Grant	514 265	514 265
Provincial: Urban Renewal Grant	-	2 375 811
Provincial : Department of Transport- Taxi Rank	7 236 277	7 236 277
Provincial: Fire Station Refurbishment	-	155 714
Chamber of Mines Grant	-	352 882
	14 967 506	14 412 365

Movement during the year

Balance at the beginning of the year	14 412 365	23 794 033
Additions during the year	135 294 507	126 706 287
Income recognition during the year	(134 739 366)	(122 493 602)
Roll-over disallowed	-	(13 595 378)
Interest received	-	1 025
	14 967 506	14 412 365

17. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Provision for long service awards	20 716 957	568 043	21 285 000
Environmental rehabilitation	27 763 164	1 526 974	29 290 138
	48 480 121	2 095 017	50 575 138

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Provision for long service awards	19 183 587	1 533 370	20 716 957
Environmental Rehabilitation	26 315 794	1 447 370	27 763 164
	45 499 381	2 980 740	48 480 121

Environmental rehabilitation provision

King Sabata Dalindyebo Local Municipality

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17. Provisions (continued)

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 2020, the expected life of the Mthatha and Mqanduli landfill sites is projected to be +/- 6 and +/- 6 years respectively .

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

Provision for long service awards

Service cost increased the liability by R2 172 011. Interest cost over the valuation period resulted in an increase in liability by R1 511 871. Some of the employees attained milestones during the valuation period and this resulted in bonus payments of R3 708 494 which reduced the accrued liability by the same margin.

The average liability has decreased by 15% since the last valuation due to:

- a decrease in the average earnings,
- a decrease in average past service and,
- an increase in the net discount rate.

The total liability has increased by 3% (or R568 043) due to the above, combined with the fact that there are 64 more eligible employees than at the last valuation.

Provision for long service award	2020	2019
Opening net liability	20 716 957	19 183 587
Service cost	2 172 011	2 020 139
Interest cost	1 511 871	1 483 129
Actuarial gain/ (loss)	592 655	1 147 545
Bonus Paid	(3 708 494)	(3 117 443)
	21 285 000	20 716 957

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.

19. Self insurance reserve

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

Opening balance	3 681 232	3 566 825
Movement in self insurance reserve	119 953	114 407
	3 801 185	3 681 232

20. Service charges

Sale of electricity	417 935 778	380 879 472
Refuse removal	54 623 218	47 319 030
	472 558 996	428 198 502

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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21. Rental of facilities and equipment		
Premises		
Rental of facilities	214 675	246 988
Rental of Equipment	1 834 288	1 931 083
Premises	10 976 484	17 385 920
	13 025 447	19 563 991
22. Licences and permits (exchange)		
Permits - Vending and Hawking	152 816	62 946
Motor vehicle registration fees	7 000 930	8 003 158
Licence fees - Drivers Licence	3 281 308	4 315 863
Licence fees - Business	1 147 904	90 579
	11 582 958	12 472 546
23. Fines, Penalties and Forfeits		
Service Provider Traffic Fines	8 400	5 904
Municipal Traffic Fines	2 116 824	2 720 898
	2 125 224	2 726 802
All outstanding traffic fines have been impaired due to uncertainty of recovery, these debts by their nature can be contested in the courts or through application of fine relief.		
24. Lease rentals on operating lease		
Premises		
Contractual amounts	386 030	2 754 838
Motor vehicles		
Contractual amounts	73 613	123 600
Equipment		
Contractual amounts	3 428 877	4 797 552
	3 888 520	7 675 990
25. Other Income		
Building plan approvals	867 810	1 032 836
Call out revenue	101 136	166 676
Disconnection fees	818 976	663 981
Library fees	52 633	58 251
Department of Transport SLA - Roads	11 090 811	-
Insurance Claims	59 441	272 252
Meter testing	722 279	909 886
Sundry income	615 053	651 129
Recoveries	(15 174)	257 915
Pound fees	35 588	9 423
Fire levy and other fees earned	14 658 705	10 955 945
Printing and stationery recoveries	170 220	50 219
Amatola Water Board	24 402 392	-
	53 579 870	15 028 513

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
26. Investment revenue		
Interest revenue		
Interest from investments and bank	1 607 992	1 313 894
Interest charged on trade and other receivables	49 498 183	47 402 916
	51 106 175	48 716 810

27. Property rates

Rates received		
State	73 962 954	74 417 954
Residential	47 889 930	53 193 400
Commercial	96 357 461	89 027 096
Municipal - parking	140 878	60 214
	218 351 223	216 698 664
Valuations		
Residential	7 067 536 000	7 313 591 000
Commercial	6 233 003 100	6 533 020 500
State	2 781 171 000	3 127 832 713
Municipal	1 231 096 000	1 110 378 000
Small holdings, farms and agriculture	5 033 000	7 932 000
Places of public worship	216 305 000	139 983 000
Vacant Land	1 057 617 500	1 051 364 500
Public Benefit organisation	178 146 000	157 644 000
	18 769 907 600	19 441 745 713

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 next general valuation will come into effect in July 2020. The municipality is still using the 2014 general valuation, an extension of the 2014 general valuation was granted by the MEC COGTA.

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
28. Government grants and subsidies		
Operating grants		
Equitable share	329 194 000	291 608 370
VAT Operational	1 461 313	1 388 593
Library Grant	1 750 000	1 750 000
Expanded Public Program Grant	2 595 449	3 718 947
Human Settlements: Graduates	-	82 504
Electricity Demand Side Management Grant	7 059 308	6 804 972
SETA Grant	1 245 799	508 992
MIG	4 217 522	4 429 248
LLR Chamber of Mines	352 882	-
Disaster Management Grant	3 062 710	-
FMG	1 260 283	2 058 025
Urban Renewal	2 065 923	340 541
Infrastructure Skills Development	4 268 500	5 969 114
	358 533 689	318 659 306

Capital grants

Provincial: Infrastructure Intervention	4 177 937	2 554 117
Fire Station Refurbishment	155 714	-
MIG	78 127 370	70 148 155
VAT Capital	4 912 868	11 362 347
Municipal Electrification Intervention COGTA	1 733 000	2 711 866
Human Settlement	13 941 871	12 318 440
DOE Grant	14 031 280	5 967 870
	117 080 040	105 062 795
	475 613 729	423 722 101

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received:		
Various Conditional grants received	140 045 548	119 362 791
VAT Operational	1 461 313	1 388 593
VAT Capital	4 912 868	11 362 347
Unconditional grants received		
Equitable Share	329 194 000	291 608 370
	475 613 729	423 722 101

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 of R15 044 456 - (2019: R21 969 049 -), which is funded from the grant.

King Sabata Dalindyebo Local Municipality

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2020 2019

28. Government grants and subsidies (continued)

Human Settlements ISUP

Balance unspent at beginning of year	3 386 659	(1 551 059)
Current-year receipts	13 943 463	17 308 513
Conditions met - transferred to revenue	(13 951 048)	(12 318 429)
Re-allocation	-	2 185 916
Re-allocation	-	(2 238 282)
	3 379 074	3 386 659

Conditions still to be met - remain liabilities (see note 6).

Electricity Demand Site Management

Balance unspent at beginning of year	144 036	(31 146)
Current-year receipts	8 000 000	8 000 000
Conditions met - transferred to revenue	(8 111 642)	(7 824 818)
	32 394	144 036

Conditions still to be met - remain liabilities (see note 6).

Provincial: MTAB Grant

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

Conditions still to be met - remain liabilities (see note 6).

Municipal Infrastructure Grant

Balance unspent at beginning of year	(590 956)	12 782 289
Current-year receipts	85 879 000	84 506 000
Conditions met - transferred to revenue	(85 672 675)	(85 096 955)
Rollover denied	-	(12 782 290)
	(384 631)	(590 956)

Conditions still to be met - remain liabilities (see note 6).

National: Financial Management Grant

Current-year receipts	2 680 000	2 215 000
Conditions met - transferred to revenue	(1 328 296)	(2 215 000)
	1 351 704	-

Conditions still to be met - remain liabilities (see note 6).

King Sabata Dalindyebo Local Municipality

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2020 2019

28. Government grants and subsidies (continued)

Provincial: Rural planning & survey

Balance unspent at beginning of year	126 943	126 943
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	126 943	126 943

Conditions still to be met - remain liabilities (see note 6).

Provincial: KSD Elections- Road Maintenance

Balance unspent at beginning of year	109 543	109 543
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	109 543	109 543

Conditions still to be met - remain liabilities (see note 6).

Department of Housing and Local Government

Balance unspent at beginning of year	333 652	333 652
Current-year receipts	-	-
	333 652	333 652

Conditions still to be met - remain liabilities (see note 6).

Library Grant

Current-year receipts	1 750 000	1 750 000
Conditions met - transferred to revenue	(1 750 000)	(1 750 000)
	-	-

Conditions still to be met - remain liabilities (see note 6).

Provincial: Urban Renewal Grant

Balance unspent at beginning of year	2 375 811	2 716 352
Conditions met - transferred to revenue	(2 375 811)	(340 541)
	-	2 375 811

Conditions still to be met - remain liabilities (see note 6).

Infrastructure Skills Development

Balance unspent at beginning of year	-	813 081
Current-year receipts	6 500 000	6 000 000
Conditions met - transferred to revenue	(4 395 175)	(6 000 000)
Other	-	(813 081)
	2 104 825	-

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
28. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 6).		
Organogram Development Grant		
Balance unspent at beginning of year	294 477	294 477
Conditions still to be met - remain liabilities (see note 6).		
Department of Transport		
Balance unspent at beginning of year	7 236 277	7 236 277
Conditions still to be met - remain liabilities (see note 6).		
Covid: Disaster Management Grant		
Current-year receipts	3 277 000	-
Conditions met - transferred to revenue	(3 277 000)	-
	-	-
Conditions still to be met - remain liabilities (see note 6).		
Provide explanations of conditions still to be met and other relevant information.		
Provincial Fire Station Refurbishment Grant		
Balance unspent at beginning of year	155 714	155 714
Conditions met - transferred to revenue	(155 714)	-
	-	155 714
Conditions still to be met - remain liabilities (see note 6).		
LLR Chamber of Mines		
Balance unspent at beginning of year	352 882	352 882
Conditions met - transferred to revenue	(352 882)	-
	-	352 882
Conditions still to be met - remain liabilities (see note 6).		
National: Department of Energy - Electrification Projects		
Balance unspent at beginning of year	(26 938)	(13 946)
Current-year receipts	15 000 000	6 800 000
Conditions met - transferred to revenue	(15 104 079)	(6 812 992)
	(131 017)	(26 938)
Conditions still to be met - remain liabilities (see note 6).		

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
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28. Government grants and subsidies (continued)

Human Settlements - Graduates

Balance unspent at beginning of year	-	(45 290)
Current-year receipts	-	127 794
Conditions met - transferred to revenue	-	(82 504)
	-	-
	-	-

Conditions still to be met - remain liabilities (see note 6).

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.

29. Public contributions and donations

Financial assistance	-	16 716 500
	-	-

The 2019 donations received and financial assistance relates to roads that were constructed by SANRAL and financial assistance by the OR District Municipality. In the current financial year there was no donations or financial assistance received.

King Sabata Dalindyebo Local Municipality

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2020 2019

30. Revenue

Service charges	472 558 996	428 198 502
Rental of facilities and equipment	13 025 447	19 563 991
Licences and permits	11 582 958	12 472 546
Other income	53 579 870	15 028 513
Interest received	51 106 175	48 716 810
Property rates	218 351 223	216 698 664
Government grants & subsidies	475 613 729	423 722 101
Public contributions and donations	-	16 716 500
Fines, Penalties and Forfeits	2 125 224	2 726 802
	1 297 943 622	1 183 844 429

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

Service charges	472 558 996	428 198 502
Rental of facilities and equipment	13 025 447	19 563 991
Licences and permits	11 582 958	12 472 546
Other income	53 579 870	15 028 513
Interest received	51 106 175	48 716 810
	601 853 446	523 980 362

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

Taxation revenue	218 351 223	216 698 664
Property rates	475 613 729	423 722 101
Transfer revenue	-	16 716 500
Financial Assistance	2 125 224	2 726 802
Public contributions and donations		
Other transfer revenue		
	696 090 176	659 864 067

31. Employee related costs

Basic	285 365 862	263 722 016
Acting allowances	2 407 414	6 730 470
Overtime payments	31 563 243	24 379 019
Bonus- Annual Leave	19 866 191	17 658 897
Medical aid - company contributions	24 043 938	21 872 402
Pension and Provident Fund Contribution	42 091 937	34 369 167
UIF	2 435 200	2 137 371
WCA	3 549 564	2 323 967
SDL	412 794	1 381 999
Leave pay provision charge	(6 129 447)	4 586 405
Travel, motor car, accommodation, subsistence and other allowances	20 441 724	19 832 962
Long-service awards	6 878 945	7 158 553
Housing benefits and allowances	21 326 877	20 448 956
Termination benefits	5 916 624	5 874 323
	460 170 866	432 476 507

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
31. Employee related costs (continued)		
Remuneration of municipal manager - Mr N Pakade		
Annual Remuneration	1 474 056	612 760
Backpay	37 747	-
Contributions to UIF, Medical and Pension Funds	3 569	744
Other	77 401	41 718
	1 592 773	655 222

Mr N Pakade was appointed as the Municipal Manager from February 2019.

Remuneration of acting municipal manager- Mr M Sigaba

Annual Remuneration	-	1 103 435
Back pay	-	29 067
Contributions to UIF, Medical and Pension Funds	-	1 338
Other	-	92 893
	-	1 226 733

Mr M Sigaba contract expired as at March 2019

Remuneration of chief finance officer - Mr EF Jiholo

Annual Remuneration	1 205 379	1 380 889
Back pay	35 640	2 206
Contributions to UIF, Medical and Pension Funds	3 569	1 785
Other	195 991	199 303
	1 440 579	1 584 183

Remuneration of Director: Technical Services - Mr ZH Ngovela

Annual Remuneration	-	354 948
Back pay	-	58 879
Acting allowance	-	20 482
Contributions to UIF, Medical and Pension Funds	-	446
Other	-	104 927
	-	539 682

Mr ZH Ngovela resigned in October 2018

Remuneration of Director: Community Services - Mr LP Maka

Annual Remuneration	1 391 819	1 369 118
Back pay	35 640	24 803
Contributions to UIF, Medical and Pension Funds	3 569	1 785
Other	24 032	25 932
Acting Allowance	6 177	-
	1 461 237	1 421 638

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
31. Employee related costs (continued)		
Remuneration of Director: Corporate services - Mr A Mdleleni		
Annual Remuneration	-	115 383
Leave pay	-	152 859
Contributions to UIF, Medical and Pension Funds	-	297
	-	268 539

Mr A Mdleleni contract ended in June 2018

Remuneration of Director: Corporate services - Mr S Nodo

Annual Remuneration	1 067 722	154 920
Backpay	31 570	10 402
Acting Allowance	3 787	-
Contributions to UIF, Medical and Pension Funds	79 598	297
Other	84 852	-
	1 267 529	165 619

Remuneration of Director : Human Settlements - Mrs NN Soldalti

Annual Remuneration	1 134 006	1 364 958
Backpay	35 640	28 913
Acting Allowance	15 228	-
Contributions to UIF, Medical and Pension Funds	35 070	1 785
Other	113 826	9 600
	1 333 770	1 405 256

Remuneration of Director: Local Economic Development - Mr AO Pantswa

Annual Remuneration	918 553	791 850
Contributions to UIF, Medical and Pension Funds	65 569	1 785
Other	634 763	683 495
	1 618 885	1 477 130

Remuneration of Director : Public Safety Mrs N Maqekenza (Acting)

Annual Remuneration	-	167 691
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Mrs N Maqekenza started acting as the director from October 2017 to 31 August 2018.

King Sabata Dalindyebo Local Municipality

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31. Employee related costs (continued)

Remuneration of Director : Infrastructure : Mr Mnqokoyi

Annual Remuneration	657 722	-
Backpay	32 007	-
Contributions to UIF, Medical and Pension Funds	103 401	-
Other	68 477	-
	861 607	-

Remuneration of Director: Public Safety - Mr D Kettledas

Annual Remuneration	1 244 690	989 542
Backpay	30 992	-
Contributions to UIF, Medical and Pension Funds	3 569	1 487
Other	11 645	4 805
	1 290 896	995 834

Mr D Kettledas was appointed as from 3rd September 2018

Remunerations of Acting Directors:

Acting Allowance - Mr Gwadiso - Acting Director Technical Services	128 733	-
Acting allowance - Mrs KN Ngxobongwana - Acting Director Corporate Services	-	109 175
Extra-duty allowance - Mr CM Songca - Acting Director Corporate Services	-	64 572
	128 733	173 747

Mrs KN Ngxobongwana started acting from the 6th of March 2019 -4th of May 2019.

Mr CM Songca started acting from the 30th of May 2018 till the 5th of March 2019.

Mr Gwadiso started acting from the 3rd of October 2018 till the 13th October 2019

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2020	2019
32. Remuneration of councillors		
Current Executive Mayor - Cllr GN Nelani	938 250	150 645
Former Executive Major - Cllr D M Zozo	-	753 226
Current Chief Whip - Cllr Z M Nyoka	725 515	117 447
Former Chief Whip - Cllr S Nyengane	-	574 169
Current Speaker - Cllr TG Maqoko	759 478	121 996
Former Speaker - Cllr N R Gcingca	-	610 619
Councillors	25 876 682	25 246 472
	28 299 925	27 574 574
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor and the Speaker of the Council have the use of separate Council owned vehicles for official duties.		
The current Executive Mayor, Speaker and Chief Whip were appointed from 1st of May 2019.		
33. Depreciation and amortisation		
Property, plant and equipment	179 937 262	180 859 237
Intangible assets	156 609	133 007
	180 093 871	180 992 244
34. Impairment loss		
Impairments		
Property, plant and equipment	30 776 420	432 521
35. Finance costs		
Interest on overdue accounts trade and other payables	24 475 235	13 597 172
Borrowings	10 293 711	11 283 130
Interest on provision landfill site	1 526 974	1 447 369
	36 295 920	26 327 671
36. Debt impairment		
Impairment of debtors	117 035 622	84 339 706
37. Bulk purchases		
Electricity - Eskom	315 810 587	268 269 413

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38. Contracted services		
Presented previously		
Information Technology Services	4 000 454	4 918 634
Operating Leases	-	62 557
Specialist Services	1 535 373	1 553 712
Other Contractors	5 194 258	1 015 976
	10 730 085	7 550 879

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39. Grants and Subsidies paid

Other subsidies

Other grants	-	294 494
Council ward committees	10 780 498	9 868 000
Bursaries	31 278	484 598
Community participation	3 559 530	-
Public expense	376 138	660 182
Expanded Public works program	3 744 880	7 720 751
Department of Local Government	2 205 110	-
Electricity demand side management	6 955 788	6 909 320
Infrastructure skills development grant	1 010	6 087 639
Finance Management Grant	1 064 800	2 018 252
Library grant	-	6 204
Ward based budgeting	2 493 267	3 628 392
Ward based budgeting	401 333	-
Indigent Subsidy	15 044 456	21 969 049
Grant Expenditure	444 826	-
	47 102 914	59 646 881

40. General expenses

Audit committee expenses	906 563	448 889
Advertising	495 985	422 459
Auditors remuneration	10 791 051	9 820 607
Bank Charges	1 419 266	1 574 708
Community cleaning project	1 310 322	985 964
Commission paid	2 381 134	2 823 296
Consulting and professional fees	7 265 974	4 148 583
Cleaning materials	2 451 766	1 724 989
Donations	1 074 737	51 880 163
Entertainment	213 496	364 142
Community development and training	1 228 876	1 514 838
Conferences and seminars	1 141 904	1 201 146
Promotions and sponsorships	746 014	1 090 771
Levies	11 556 070	5 916 984
Magazines, books and periodicals	18 655	14 630
Motor vehicle expenses	1 432 414	2 057 093
Municipal Service Charges	9 593 200	7 688 907
Fuel and oil	8 878 710	5 825 654
Rehabilitation of Tip Sites	521 778	3 126 216
Printing and stationery	1 376 637	919 706
Uniforms	1 406 376	1 824 624
Valuation expenses	714 296	1 661 976
Repairs and maintenance	83 746 563	30 386 791
Royalties and license fees	1 779 703	4 502 371
Software expenses	149 051	-
Staff welfare	9 027	23 406
Telephone and fax	11 024 171	9 014 729
Training	1 780 007	1 578 133
Subsistence & Travelling	2 987 641	3 799 372
Subscriptions and Membership Fees	3 675	4 748
Insurance	4 301 626	2 841 687
Other expenses	2 374 264	4 589 744
Solid waste management	68 000	-
Recruitment Expenses	263 202	443 577
Erven Cleaning Fees	131 058	37 164
Material & Stores	4 875 068	2 363 801
State Funeral Expenses	-	-
Incentive - Prompt Payment	1 543 407	1 412 047
Tourism Development	193 890	149 690
Legal Fees	6 148 088	17 265 001
	188 303 665	185 448 606

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41. Fair value adjustments		
Investment property (Fair value model)	4 457 358	9 910 301
	<hr/>	<hr/>
42. Auditors' remuneration		
Fees	10 791 051	9 820 607
	<hr/>	<hr/>
43. Cash generated from operations		
Deficit	(124 524 450)	(90 503 038)
Adjustments for:		
Depreciation and amortisation	180 093 871	180 992 244
Loss on sale of assets and liabilities	8 417 035	3 522 904
Fair value adjustments	(4 457 358)	(9 910 301)
Impairment deficit	30 776 420	432 521
Debt impairment	117 035 622	84 339 706
Bad Debts	(1 543 288)	8 551 968
Other non-cash items	-	(17 149 047)
Other non-cash items - Financial assistance		
Inventories	1 413 417	(64 492 430)
Receivables from exchange transactions	2 548 636	(10 613 640)
Movement in provision for debt impairment	(147 812 042)	(92 891 674)
Other receivables from non-exchange transactions	(12 460 376)	(8 083 049)
Payables from exchange transactions	52 328 791	6 387 838
VAT	(4 685 078)	13 419 353
Unspent conditional grants and receipts	555 141	(9 381 668)
Consumer deposits	18 073 359	760 993
Provision and Obligations	(16 236 884)	33 348 159
	<hr/>	<hr/>
	99 522 816	28 730 839

44. Budget differences

Material differences between budget and actual amounts

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44. Budget differences (continued)

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

Service charges:

Undercollection in refuse removal ; electricity sales ;electricity connection fee for new properties and parking meter fees.

Rental of facilities and equipment:

Undercollection in rental of Munitata- 4,3m; Rental of staff houses and park homes - 7,8m; halls - 210,054 ; and rental of containers.

Licence and permits:

Undercollection in Mqanduli -469,021 ; Mthatha vehicle examination & roadworthy -2m which was closed because of theft and registration and drivers licences - 5m (closed because of COVID).

Interest received

This was due largely to the significant difference in Investments and also the fact the Debtor have been making payment arrangements for their outstanding debts.

Other income:

Undercollection in Transport SLA of 14m ; application of building plans- 843,197 ;Recoveries other - 2,1m ;Tender deposits- 484,226.

Property rates:

Because of supplementary valuation which was still outstanding.

Fines, Penalties and Forfeits:

Undercollection in Mthatha -2,6m and Mqanduli 221,970.

Personnel:

The is due to employee allowances that were owed to employees previously and were paid out in the financial year.

Remuneration of Councillors:

The is due to the fact that some of the councillors had died / have vacated their posts and there were delays in replacing the deceased due to Covid.

Depreciation:

This is due to addition of assets lesser than anticipated resulting in less depreciation for the period.

Finance Cost:

Provided more for assets which were to be bought during the year.

Lease rentals on operating lease:

This is largely due to the fact that a lot of these operating leases were on month to month contracts and some contracts came to an end, terminated and the planning of get new operating leases was delayed due to Covid.

Bulk Purchases:

This is due to the fact that the country was under hard lockdown for 3 months and a lot of businesses had to close down and therefore less electricity was consumed.

Debt impairment:

Non payment by debtors because of Covid.

Grants and subsidies paid:

Disturbance by COVID

General expenses:

Disturbance by COVID.

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44. Budget differences (continued)

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 of properties.

45. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	68 434 538	102 103 285
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Total capital commitments

Already contracted for but not provided for	68 434 538	102 103 285
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

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46. Contingencies

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

Pending litigations and claims

Disclose:

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

	2020	2019
Claims for damages related to motor vehicles	1 340 000	830 000
Claims for damages arising out of the electrocution, Claims for damages for emotional shock and trauma, funeral expenses, claims for assault, and other claims for damages	21 342 000	35 993 500
Claims related to unlawful arrests and detentions	4 875 000	4 550 000
Consolidated cointainer/ caravans matters that were impounded when the Municipality embarked on a clean up campaign.	15 849 200	3 000 000
Labour matters: claims for acting allowance, claims for overtime, labour matters emanating from termination of contracts, alleged unfair dismissal	5 365 500	5 460 000
Land Matters: Land Claims, Eviction proceedings, Demolishing of structures	12 556 500	30 186 500
Tender claims: Contractual: Damages for alleged breach of a contract. Claim for Commission due, owing and payable allegedly flowing from an agreement to reconcile VAT and claim what is due to K.S.D.	1 730 000	730 000
	63 058 200	80 750 000

47. Related parties

Relationships

Mayor	Cllr G N Nelani
Speaker	Cllr T G Maqoko
Chief Whip	Cllr M Nyoka
Members of the Mayoral Committee	Cllr N Sibeko Cllr Z Nokayi Cllr L N Ntlonze 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 S. Jadiso Cllr V.N. Roji Cllr M. Menzelwa Cllr M. Qotyana Cllr Z. Luvantyu Cllr N. Mkontwana Cllr Z.M. Gusana Cllr T. Mcimbi Cllr C.S. Tokwana
Councillors	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 M. Marasha Cllr B. Bikani

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47. Related parties (continued)

Cllr X.M. Mbongwana
Cllr M. Mkhetheli
Cllr L. Mkonto
Cllr S. Sikrenya
Cllr M.D. Teti
Cllr L. D. Liwani
Cllr B. Bara
Cllr N. Gcinindawo
Cllr B. Ndlobongela
Cllr A. 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 L.A. Tshiseka
Cllr M. Gogo
Cllr N. Ngqongwa
Cllr N. Pali
Cllr N. Nyangani
Cllr M. Mpangele
Cllr N.P Ngalo
Cllr R. Knock
Cllr A. Mgquba
Cllr L.M. Luwaca
Cllr U.N.V. Malghas
Cllr N.M. Nqwazi
Cllr M.A Fukula
Cllr N. Mtwa
Cllr N.A. Sobahle
Cllr L.P. Zuma
Cllr M.A.
Manzolwandle
Cllr B. Malghas
Cllr D.M.Zozo
Members of key management
N Pakade (Municipal Manager)
E Jiholo (Chief Financial Officer)
L P Maka (Director: Community Services)
D Kettledas (Director: Public Safety)
N N Soldati (Director: Human Settlements)
A O Pantswa (Director: LED)
U Mnqokoyi (Director: Technical Services)
S M Nodo (Director: Corporate Services)

Awards to close family members of persons in the service of the state:

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

Nine awards were made during the financial year to close family members of persons in the service of the state;

Five of these awards amount to R53 827 129,97 and four are rate based contracts. These were declared by the bidders in their bid documents.

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48. Unauthorised expenditure

Unauthorised expenditure - Opening	532 738 835	473 735 405
Add: Unauthorised expenditure - current year	112 873 857	59 003 430
	645 612 692	532 738 835

Current year

	Reason	Amount
Budget and Treasury	Under budgeting to debt impairment provision and depreciation.	47 102 434
Public Safety	Overspending on salaries.	14 665 546
Community Services	Overspending on salaries and depreciation.	16 965 743
Technical Services	Overspending on repairs and maintenance and under budgeting on depreciation	34 140 134
		112 873 857

49. Fruitless and wasteful expenditure

Opening balance as previously reported	30 383 319	17 593 260
Opening balance as restated	30 383 319	17 593 260
Add: Expenditure identified - current	23 638 291	12 790 059
Closing balance	54 021 610	30 383 319

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.

50. Irregular expenditure

Opening balance	947 872 745	889 592 023
Add: Irregular Expenditure - current year	21 140 487	58 280 722
Less: Write off by council	(417 527 777)	-
	551 485 455	947 872 745

Details of irregular expenditure – current year

Splitting	467 350
No Specification committee	13 214 422
No SCM process followed	1 998 754
Bid adjudication committee not properly constituted	5 459 961
	21 140 487

Irregular expenditure has been investigated by MPAC and the report is to be considered in the next council meeting.

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	-
Current year subscription / fee	4 645 230	4 510 820
Amount paid - current year	(2 322 615)	(4 510 820)
	2 322 615	-

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

Distribution losses

During the 2020 financial year the Municipality incurred distribution losses relating to electricity of 16.96% (2019:7.92%).

Electricity distribution losses in units

Purchases	285 638 931	268 146 139
Own use	(3 769 371)	(3 209 315)
Pre-paid consumer electricity sold	(94 458 437)	(98 891 541)
Conventional consumer billed	(138 955 308)	(144 795 602)
	48 455 815	21 249 681

Units purchased during the year
Units sold during the year

285 638 931	268 146 139
(237 183 116)	(246 896 459)

48 455 815	21 249 680
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Rand per unit
Cost in rands

1,94	1,54
93 811 326	32 781 219

Audit fees

Opening balance	6 895 332	1 883 512
Current year subscription / fee	12 573 544	11 648 446
Amount paid - current year	(19 374 720)	(6 636 626)
	94 156	6 895 332

PAYE, UIF and SDL

Opening balance	53 431 614	44 302 659
Current year subscription / fee	80 834 935	89 324 011
Amount paid - current year	(58 953 121)	(80 195 056)
	75 313 428	53 431 614

Skills Development levy (SDL) Covid - 19 relief:

For the four months period from May - August 2020, employers who are registered for SDL do not have to declare and pay SDL to SARS.

The SDL payment holiday will be automatical provided. The Zero amount SDL Liability will be defaulted on the EMP201 return for the four month period from May to August 2020.

Pension, Provident and Medical Aid Deductions

Opening balance	27 279 211	33 060 739
Current year subscription / fee	106 173 524	89 851 628
Amount paid - current year	(97 068 101)	(95 633 156)
	36 384 634	27 279 211

VAT

VAT receivable	6 765 295	1 973 003
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51. Additional disclosure in terms of Municipal Finance Management Act(continued)

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding 90 days R	Outstanding more than 90 days R	Total R
Sobahle NA	1 419	2 584	4 003
Zozo DM	3 266	10 353	13 619
Sibeko N	2 317	286	2 603
Malotana MW	19 169	5 873	25 042
Gqwetha BB	1 301	14 055	15 356
Mabaso M	1 219	3 975	5 194
Nyangani N	771	6 021	6 792
Mabaso MM	2 080	22 472	24 552
Bunzana M	1 107	-	1 107
	32 649	65 619	98 268

30 June 2019	Outstanding 90 days R	Outstanding more than 90 days R	Total R
Sobahle NA	595	4 098	4 693
Zozo DM	720	2 137	2 857
Sibeko N	206	-	206
Nelani NT	676	1 606	2 282
Gqwetha BB	461	22 321	22 782
Mabaso M	509	41 868	42 377
Nyangani N	335	19 126	19 461
	3 502	91 156	94 658

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

Supply Chain Management Deviations

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.

52. Supply Chain Management Regulations

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

Incident	2020	2019
3 quotations not obtained	74 824	507 972
Sole supplier	955 401	999 958
Emergency procurement	213 637	966 514
Labour unrest	579 263	-
Minor Breach	6 500 000	-
Advertising in local newspaper	593 466	17 809
Pauper burials-body already at parlour	35 600	143 629
Covid - 19	2 844 356	-
	11 796 547	2 635 882

53. Bids awarded to employees in service of the state

54. Risk management

Financial risk management

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

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

Liquidity risk

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

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

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

At 30 June 2020	Between 1 and 2 years		Between 2 and 5 years	
	years	year	years	year
Trade and other payables	435 726 532	-	-	-
Other financial liabilities	4 194 796	10 459 332	-	-
Consumer deposits	36 254 318	-	-	-
Finance lease obligation	20 366 489	55 459 679	-	-
At 30 June 2019	Between 1 and 2 years		Between 2 and 5 years	
Trade and other payables	397 739 890	-	-	-
Other financial liabilities	12 897 505	14 627 799	-	-
Consumer deposits	18 180 959	-	-	-
Finance lease obligation	17 895 063	73 791 580	-	-

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54. Risk management (continued)

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.

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	2020	2019
Cash and cash equivalents	26 182 479	22 263 053
Receivables from exchange transactions	47 165 649	43 359 779
Receivables from non-exchange transactions	48 574 537	47 091 773

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.

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54. Risk management (continued)

Covid 19 disaster risk

COVID 19

All areas of society were affected by the global pandemic as a result of the COVID-19 virus and were affected by the national lockdown announced by the South African national government. The declaration of the national state of disaster as published in Gazette No 43096 on the 15th March 2020 and extended thereafter has had an impact on the legislative reporting dates for municipalities.

The municipality continued to provide services during the national state of national disaster and raise revenue accordance with services provided under both exchange and non-exchange revenue. Management has assessed that there have been no material changes in revenue raised of services. The nationwide lockdown has had a negative impact on the entity's recovery of income generated. The municipality in its assessment of impairment has considered the consumers risk profile and payment history.

The municipality was able to meet its obligations relating to borrowings. There has been no need to reclassify the outstanding balance between the current and non-current due to changes in terms.

Management has considered the impact of COVID-19 and the hard lockdown on non-monetary assets. There have been no material changes in the use of asset that would require a change in the expected useful life of assets.

Due to the lockdown and limited movement, the municipality has seen a reduction in the spend on capital projects. The municipality has disclosed any delays in capital projects as a result of national state of disaster and lockdown.

Management has assessed that there has been an increase in expenditure relating to Personal Protective Equipment (PPE) as required by the regulation as issued under the national state of disaster. The expenditure patterns on general expenditure items has remained consistent.

No material information has come to the attention of management to suggest that there is a going concern issue. The financial statements for the year ended 30 June 2020 have been prepared under the going concern assumption.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

55. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	48 850 321	48 850 321
Receivables from non-exchange transactions	59 552 149	59 552 149
Cash and cash equivalents	26 182 479	26 182 479
	134 584 949	134 584 949

Financial liabilities

	At amortised cost	Total
Other financial liabilities	14 654 128	14 654 128
Payables from exchange transactions	456 447 399	456 447 399
Finance lease obligation	75 826 168	75 826 168
	546 927 695	546 927 695

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Financial instruments disclosure (continued)

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	51 398 957	51 398 957
Other receivables from non-exchange transactions	47 091 773	47 091 773
Cash and cash equivalents	22 263 053	22 263 053
	120 753 783	120 753 783

Financial liabilities

	At amortised cost	Total
Other financial liabilities	27 525 304	27 525 304
Trade and other payables from exchange transactions	404 118 608	404 118 608
Finance lease obligation	91 686 643	91 686 643
	523 330 555	523 330 555

56. Events after the reporting date

The municipality is not aware of any events after 30 June 2020 that may have an impact on the financial statements or require disclosure.

57. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2019

	Note	As previously reported	Correction of error	Restated
Inventories		7 324 102	60 409 540	67 733 642
Property Plant and Equipment		2 562 422 081	(392 359 525)	2 170 062 556
Receivables from exchange transactions		43 359 779	8 039 178	-
Payables from exchange transactions		(386 940 763)	(17 177 845)	(404 118 608)
Accumulated Surplus		(2 031 655 549)	341 088 652	(1 690 566 897)
		194 509 650	-	143 110 693

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Restated
Rental of facilities and equipment		17 163 520	2 400 472	19 563 992
Finance costs		25 520 558	807 113	26 327 671
Employee related cost		429 922 269	2 554 238	432 476 507
Depreciation and amortisation		160 450 510	20 541 734	180 992 244
General expenditure		132 479 147	52 969 459	185 448 606
Surplus for the year		765 536 004	79 273 016	844 809 020

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2019

57. Prior-year adjustments (continued)

Prior period errors adjustments

The following prior period errors adjustments occurred:

STATEMENT OF FINANCIAL POSITION:

Inventories

The changes or adjustments made are due to land that belongs to KSD Municipality but will be transferred in the Deeds Office to Province of the Eastern Cape as the municipality has no control over them Application of GRAP12 was applied.

Property, plant and equipment

The changes or adjustments made are due to, Assets not belonging to the Municipality, Land - Duplications, Land adjustments (School not belonging to KSD, Removal of Residual Values on Access and Tarred Road and Land missclassification.

Receivables from exchange transactions

The changes or adjustments made are due to, Commercial rentals not raised for the Nkululeweni Housing as per COAF 71 audit findings of the AGSA.

Payables from exchange transactions

The changes or adjustments made are due to the following, Accrued restatement, Legal fees previously disclosed as contingents and creditors adjustment from overtime relating to prior years that was previously captured in the incorrect financial year. All from prior year COAF findings.

Accumulated Surplus

The change in accumulated surplus is largely made by all the relating to prior prior year restatement in the Statement of Financial Position movements and statement of financial Performance movements.

STATEMENT OF FINANCIAL PERFORMANCE:

Rental of facilities and equipment

The changes or adjustments made are due to, Commercial rentals not raised for Whirlprops and the Nkululeweni Housing.

Finance cost

The changes or adjustments made are due to, Commercial rental agreement between the Municipality and Whirlprops for the outstanding debt. as per AGSA COAF 71 finding.

General Expenses

The changes or adjustments in general expenditure is due to movement in WIP - Electrical projects completed and Donated to Eskom and the Legal Fees coming from Accruals.

Depreciation and amortisation

The changes or adjustment in depreciation expense is due to the effect on the removal of Residual values in access roads and tarred roads.

Employee related cost

The changes or adjustment in employee related costs is due to employee allowances that were captured in the incorrect years.

Impairment loss

The change pr adjustment in impairment loss is due to WIP projects that have been written off the WIP Register due to projects that were never completed.

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58. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus R 1 564 670 725 and that the municipality's total assets exceed its liabilities by R 1 952 459 941.

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.

The total assets exceed the total liabilities by R1.9 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 R460.2 million. The municipality will receive total operating grants amounting to R449 million and R117.5 million for capital grants in terms of the DORA allocation as gazetted in the 2019/20 financial year Division of Revenue Act.

Eskom amount payable amounts to R125.2 million whereas the total gross receivables relating to rates and services amounts to R767 million. The municipality, in the preparation of the 2019/20 budget, has taken into account balances owed to ESKOM in relation to the arrear arrangement. 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 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 29% of total current liabilities, in order ease the burden on current cash flows