

**UMSIPALA WASE DANNHAUSER
DANNHAUSER MUNICIPALITY
DANNHAUSER MUNISIPALITEIT**



**FINANCIAL STATEMENTS FOR
FOR THE YEAR 30 JUNE 2012**

DANNHAUSER MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

| | |
|--|--|
| Province | KwaZulu Natal |
| AFS Rounding | Rands |
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DANNHAUSER MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

General information

Members of the Council

| | |
|-------------------|-----------------------------------|
| Cllr JP Phakathi | Mayor |
| Cllr VM Ndaba | Deputy Mayor |
| Cllr ZS Ngubeni | Speaker |
| Cllr MA Sibeko | Member of the Executive Committee |
| Cllr TV Mabanga | Member of the Executive Committee |
| Cllr NM Majola | Member |
| Cllr MP Sithole | Member |
| Cllr NS Hlongwane | Member |
| Cllr MR Nyembe | Member |
| Cllr HV Mdakane | Member |
| Cllr LL Mabaso | Member |
| Cllr MA Ngidi | Member |
| Cllr AH Buthelezi | Member |
| Cllr NJ Mhlungu | Member |
| Cllr ES Kunene | Member |
| Cllr AN Radebe | Member |
| Cllr SN Ndlovu | Member |
| Cllr PP Nene | Member |
| Cllr NGJ Manyathi | Member |
| Cllr MA Buthelezi | Member |
| Cllr MB Shabalala | Member |

Municipal Manager

WB Nkosi

Chief Financial Officer

BB Mdletshe

Grading of Local Authority

Grade 2

Auditors

Auditor-General of South Africa

Bankers

ABSA Bank Limited - Newcastle

Standard Bank of SA Limited - Dannhauser

First National Bank Limited - Newcastle

DANNHAUSER MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

General information (continued)

Registered Office:

Dannhauser Municipality

Physical address:

8 Church Street
Dannhauser
3080

Postal address:

Private Bag X1011
Dannhauser
3080

Telephone number:

(034) 621 2666

Fax number:

(034) 621 3114

E-mail address:

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DANNHAUSER MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| Index | Page |
|--|-------------|
| General Information | 1 |
| Accounting Officer`s Responsibilities and Approval | 3 |
| Report of the independent auditor | 5 |
| Statement of Financial Position | 6 |
| Statement of Financial Performance | 7 |
| Statement of Changes in Net Assets | 8 |
| Statement of Cash Flows | 9 |
| Accounting Policies | 10 |
| Notes to the Annual Financial Statements | 27 |

DANNHAUSER MUNICIPALITY

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 responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

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

established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 municip

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 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 municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

"I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 48, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

DANNHAUSER MUNICIPALITY
ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act."

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 10.

"I am responsible for the preparation of these annual financial statements, which are set out on pages 11 to 62, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared on the going concern basis and were approved by the Accounting officer.

WB NKOSI
Accounting Officer

Date : 30 September 2011

DANNHAUSER MUNICIPALITY
REPORT OF THE AUDITOR GENERAL FOR THE YEAR ENDING 30 JUNE 2011

The report of the Auditor-General will be inserted after the audit.

DANNHAUSER MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE
2012

| | Note | 2012 R | 2011 R |
|---|------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 233 022 759 | 228 213 809 |
| Intangible assets | 6 | 64 978 | 64 191 |
| Investment property carried at cost | 7 | 8 708 000 | 6 508 000 |
| | | 241 795 736 | 234 786 000 |
| Current assets | | | |
| Cash and cash equivalents | 2 | 2 285 722 | 257 303 |
| Trade and other receivables | 3 | 2 174 438 | 8 107 917 |
| Investments | 4 | 10 617 305 | 22 933 673 |
| VAT receivable | 10 | 1 623 817 | 2 641 504 |
| | | 16 701 282 | 33 940 397 |
| Total assets | | 258 497 018 | 268 726 397 |
| Equity and Liabilities | | | |
| Equity | | | |
| Housing development fund | | 356 878 | 350 181 |
| Accumulated surplus | | 226 522 112 | 242 792 758 |
| Total Equity | | 226 878 990 | 243 142 939 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Non-current unspent conditional grants and receipts | 12 | 1 372 884 | 8 231 393 |
| Post Retirement Benefit | 8 | 11 786 918 | 5 316 046 |
| | | 13 159 802 | 13 547 439 |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 9 | 15 203 227 | 8 936 029 |
| Provisions | 11 | 3 255 000 | 3 100 000 |
| | | 18 458 227 | 12 036 029 |
| Total liabilities | | 31 618 028 | 25 583 468 |
| Total Equity and Liabilities | | 258 497 018 | 268 726 407 |

DANNHAUSER MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 2012 R | 2011 R |
|--|------|----------------------------|----------------------------|
| Revenue | | | |
| Revenue from Non Exchange Transaction : Property Rates | 13 | 8 154 494 | 7 830 594 |
| Revenue from Exchange Transaction : Service charges | 14 | 755 190 | 702 739 |
| Revenue from Exchange Transaction : Rental received | 15 | 103 909 | 97 526 |
| Revenue from Exchange Transaction: Interest earned | 16 | 1 083 824 | 1 175 318 |
| Revenue from Exchange Transaction: Interest earned | | | 70 416 |
| Revenue from Non Exchange Transaction Fines | 17 | 157 190 | 171 889 |
| Revenue from Non Exchange Transaction :Licenses and permits | 18 | 1 156 145 | 1 131 896 |
| Revenue fro Non Exchange Transaction: Government grants and subsidies | 19 | 66 452 214 | 53 740 573 |
| Revenue fro Exchange Transaction: Other income | 20 | 435 616 | 354 380 |
| Total Revenue | | <u><u>78 298 583</u></u> | <u><u>65 275 331</u></u> |
| Expenses | | | |
| Employee related costs | 21 | 14 400 967 | 12 062 576 |
| Remuneration of councillors | 22 | 4 344 060 | 4 088 690 |
| Post Retirement Benefit | 8 | 6 470 872 | 5 316 046 |
| Depreciation, amortisation and impairment | 23 | 22 855 664 | 21 660 893 |
| Loss on sale of Asset | 24 | 121 834 | 0 |
| Repairs and maintenance | 25 | 2 354 913 | 3 264 404 |
| Grants and subsidies expenses | 26 | 11 181 699 | 16 697 591 |
| General expenses | 27 | 34 334 023 | 19 333 185 |
| Total expenses | | <u><u>96 064 033</u></u> | <u><u>82 423 383</u></u> |
| Surplus / (Deficit) for the period | | <u><u>(17 765 450)</u></u> | <u><u>(17 148 052)</u></u> |

DANNHAUSER MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2012

| Notes | Housing Development Fund R | Accumulated Surplus R | Total Net Assets R |
|--|----------------------------------|--------------------------|-----------------------|
| Balance as at 30 June 2011 | 346 779 | 260 535 174 | 260 881 953 |
| Restatements due to GRAP conversion | - | 0 | 0 |
| Restated balance at 1 July 2011 | 346 779 | 260 535 174 | 260 881 953 |
| Interest on housing funds | 3 402 | - | 3 402 |
| Adjustment for PAYE, UIF and SDL Prior liability | | -594 364 | -594 364 |
| Surplus for the period | - | -17 148 052 | -17 148 052 |
| Balance as at 30 June 2011 | 350 181 | 242 792 758 | 243 142 939 |
| Property, plant and equipment restatement | - | - | 0 |
| Restated balance 1 July 2011 | 350 181 | 242 792 758 | 243 142 939 |
| Deficit for the period | 6 697 | -17 765 450 | -17 758 752 |
| Prior Year Adjustments - Stale Cheque | | 929 525 | 929 525 |
| Prior Year Adjustment - Asset adjustment- assets not previously verified | | 565 279 | 565 279 |
| Balance as at 30 June 2012 | 356 878 | 226 522 112 | 226 878 990 |

DANNHAUSER MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 2 012 R | 2 011 R |
|---|-----------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts | | 106 813 568 | 62 204 008 |
| Sales of goods and services | | 38 684 723 | 10 005 050 |
| Grants | | 66 452 214 | 50 669 260 |
| Interest received | | 1 241 015 | 1 175 318 |
| Other Receipt | | 435 616 | 354 380 |
| Payments | | 63 055 460 | 83 014 344 |
| Employee costs | | 18 745 028 | 16 151 265 |
| Suppliers | | 33 128 734 | 50 165 488 |
| Interest paid | | | |
| Grant | | 11 181 699 | 16 697 591 |
| Net cash flows from operating activities | 28 | 43 758 107 | (20 810 337) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | (29 268 957) | 17 713 159 |
| Working Capital | | (3 723 209) | (1 396 960) |
| Decrease in investments | | (5 000 000) | - |
| Decrease in investments | | (12 316 368) | (1 525 499) |
| Purchase of foreign currency securities | | | |
| Net cash flows from investing activities | | (50 308 534) | 14 790 700 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | - |
| Repayment of borrowings | | - | - |
| Proceeds from finance lease liability | | - | - |
| Repayment of finance lease liability | | - | - |
| Net cash flows from financing activities | | - | - |
| Net increase / (decrease) in net cash and cash equivalents | | (6 550 427) | (6 019 637) |
| Net cash and cash equivalents at beginning of period | | 257 303 | 6 276 940 |
| Net cash and cash equivalents at end of period | | 2 285 722 | 257 303 |

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1. Presentation of annual financial statements

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

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

A summary of the significant accounting policies are disclosed below.

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

1.1 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 are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade and other receivables/Loans receivable

The entity assesses its trade receivables and loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the entity 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 and loans and receivables is calculated on a portfolio basis on the remaining individually impaired items, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying values of trade receivables and payables are assumed to approximate their fair values.

Impairment testing

The recoverable (service) amounts of individual assets and cash-generating units 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.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and intangible assets

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

Allowance for impairment

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

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, 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 non-monetary asset's fair value is not determinable, it's deemed cost is the carrying amount of the asset 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, or to replace a part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

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

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

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

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.2 Property, plant and equipment (continued)

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

Subsequent to initial measurement property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual values.

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

| Item | Average useful life |
|------------------------|----------------------------|
| Buildings | 7 years |
| Furniture and fixtures | 10 years |
| Motor vehicles | 5 years |
| Equipment leased | 3 to 5 years |
| IT equipment | 3 to 5 years |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

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

Items of property, plant and equipment are derecognised 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 an item property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such difference is recognised in surplus or deficit when the item is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially measured at cost.

Where an intangible asset is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset, and
- the expenditure attributable to the asset during its development can be measured reliably.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.3 Intangible assets (continued)

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any accumulated 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 expected useful lives to their estimated residual value, if any.

The amortisation period, residual value, if any, and the amortisation method for intangible assets are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

The useful lives of intangible assets have been assessed as follows:

| Item | Useful life |
|-------------------|--------------------|
| Computer software | 3 to 5 years |

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

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

1.4 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.

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.

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 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;

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.4 Financial instruments (continued)

- 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 instrument at cost.

Classification

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

| Class | Category |
|-----------------------------|--|
| Loans receivable | Financial asset measured at amortised cost |
| Trade and other receivables | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |

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

| Class | Category |
|--------------------------|--|
| Trade and other payables | Financial liability measured at amortised cost |

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement

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

Subsequent measurement

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

- Financial instruments at amortised cost.

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

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.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.4 Financial instruments (continued)

Gains and losses

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

Impairment and uncollectibility of financial assets

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

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.4 Financial instruments (continued)

Financial liabilities

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

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

Presentation

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

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

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

1.5 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.

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 entity's incremental borrowing rate.

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

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

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using GRAP 13 – Leases.

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.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rent is recognised separately as an expense when paid or payable and are not straight-lined over the lease term.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, 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.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

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.

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

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

Identification

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

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.

1.8 Impairment of cash-generating assets Cont.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

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

Irrespective of whether there is any indication of impairment, the entity 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 is 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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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.

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 (cash-generating unit)

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 entity 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 entity 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.

1.8 Impairment of cash-generating assets Cont.

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

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

Reversal of an impairment loss

The entity 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 in surplus or deficit.

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

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

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

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

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

Redesignation

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

1.9 Impairment of non-cash-generating assets

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

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

1.9 Impairment of non-cash-generating assets Cont.

Identification

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

The entity 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 entity estimates the recoverable service amount of the asset.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

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 is tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approaches:

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

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.

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.

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

Reversal of an impairment loss

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

The entity 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 entity 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.

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.

1.10 Employee benefits

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 recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- ☑ as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

1.10 Employee benefits Cont.

Post-employment benefits: Defined contribution plans

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

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

to a defined contribution plan in exchange for that service:

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

1.11 Provisions and contingencies

Provisions are recognised when:

- ☑ the entity 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 entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when the entity:

- ☑ has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- ☑ has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

22

1.11 Provisions and contingencies Cont.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- ☑ necessarily entailed by the restructuring; and
- ☑ not associated with the ongoing activities of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26 - Contingencies.

1.12 Revenue from exchange transactions

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

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.

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 entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- ☑ the entity 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 entity;
- 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 entity;
- ☑ the stage of completion of the transaction at the reporting date can be measured reliably; and
- ☑ the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

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

- ☑ it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- and
- ☑ the amount of the revenue can be measured reliably.

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

1.13 Revenue from non-exchange transactions

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

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.

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.

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

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.

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.

Gifts and donations, including goods and services 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 entity and the fair value of the assets can be measured reliably.

Services in-kind are not recognised.

1.14 Conditional grants and receipts

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

1.15 Investment income

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

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current. Borrowing costs are recognised as an expense in the period in which they are incurred.

24

1.17 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- ☑ foreign currency monetary items are translated using the closing rate;
- ☑ non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- ☑ non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.18 Comparative figures

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

1.19 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.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure incurred in contravention of, or that is not in accordance with:

- ☒ a requirement of the PFMA (Act No. 29 of 1999); or
- ☒ a requirement of the State Tender Board Act (Act No.86 of 1986), or any regulations made in terms of the Act; or
- ☒ a requirement in any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular 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.

1.21 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.

25

1.22 Budget information

A reconciliation between the statement of financial performance and the budget has been included in the annual financial statements, as the recommended disclosure as determined by National Treasury, as the annual financial statements and the budget are not on the same basis of accounting. Refer to note 35 - Reconciliation between budget and statement of financial performance.

1.23 Related parties

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

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

Close members of the family of a person are considered to be those family members who may be expected to influence, or be

DANNHAUSER MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

influenced by, that management in their dealings with the entity.

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

Dannhauser Municipality

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

2 012

2 011

| | R | | R |
|---|-----------------------|-------------------------------------|--------------------|
| 2 CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents consists of: | | | |
| Cash on hand | 3 200 | | 3 200 |
| Cash at bank | 2 282 522 | | 254 103 |
| | <u>2 285 722</u> | | <u>257 303</u> |
| The Municipality has the following bank accounts: | | | |
| Current account (Primary bank account) | | | |
| Standard Bank limited of South Africa – Dannhauser Account number 060032073 | | | |
| Cash book balance at beginning of year | 254 103 | | 6 273 740 |
| Cash book balance at end of year | <u>2 285 722</u> | | <u>257 303</u> |
| Bank statement balance at beginning of year | 1 964 903 | | 7 864 634 |
| Bank statement balance at end of month | <u>2 267 664</u> | | <u>1 964 903</u> |
| Cash on hand | 3 200 | | 3 200 |
| Total cash and cash equivalents | <u>2 285 722</u> | | <u>257 303</u> |
| Total bank overdraft | <u>-</u> | | <u>-</u> |
| 3 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS | | | |
| | Gross Balances | Provision for Doubtful Debts | Net Balance |
| | 2012 R | R | R |
| Service debtors | | | |
| Rates | 7 448 589 | - | 7 448 589 |
| Refuse | 1 673 868 | -7 353 457 | -5 679 588 |
| Total | <u>9 122 457</u> | <u>-7 353 457</u> | <u>1 769 001</u> |
| Less: Unallocated Receipts | - | - | - |
| Total Trade Receivables | <u>9 122 457</u> | <u>-7 353 457</u> | <u>1 769 001</u> |
| Other Receivables | 405 437 | - | 405 437 |
| Debtors Adjustment | - | - | - |
| Total Trade and Other Receivables | <u>9 527 895</u> | <u>-7 353 457</u> | <u>2 174 438</u> |

Dannhauser Municipality

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

| | Gross Balances | Provision for Doubtful Debts | Net Balance |
|-----------------------------------|------------------|---------------------------------|------------------|
| 2011 R | R | R | R |
| Rates | 7 279 335 | - | 7 279 335 |
| Refuse | 1 259 179 | -7 353 457 | 268 539 |
| Total | 8 538 514 | -7 353 457 | 7 547 874 |
| Less: Unallocated Receipts | - | - | - |
| Total Trade Receivables | <u>8 538 514</u> | <u>-990 640</u> | <u>7 547 874</u> |
| Other Receivables | <u>560 043</u> | - | <u>560 043</u> |
| Debtors Adjustment | - | | - |
| Total Trade and Other Receivables | <u>9 098 557</u> | <u>-990 640</u> | <u>8 107 917</u> |

2 012

2 011

3.1. Rates : Ageing

| | | |
|-----------------------|------------------|------------------|
| Current (0 - 30 days) | 821 602 | 194 833 |
| 31 - 60 Days | 227 584 | 334 406 |
| 61 - 90 Days | 224 057 | 325 905 |
| 91 - 120 Days | 218 208 | 160 298 |
| 121 - 365 Days | 5 957 138 | 6 264 079 |
| Total | <u>7 448 589</u> | <u>7 279 522</u> |

Refuse : Ageing

| | | |
|-----------------------|------------------|------------------|
| Current (0 - 30 days) | 120 763 | 58 713 |
| 31 - 60 Days | 54 411 | 51 522 |
| 61 - 90 Days | 50 274 | 48 128 |
| 91 - 120 Days | 52 102 | 47 491 |
| 121 - 365 Days | 1 396 319 | 1 053 325 |
| Total | <u>1 673 868</u> | <u>1 259 179</u> |

28

3.2. Summary of Trade Receivables per customer classification

| | 2012 | Total | Residential | National and Provincial Government |
|---------------------|------|---------|-------------|--|
| Current (0-30 days) | | 942 365 | 627 239 | 315 126 |

Dannhauser Municipality

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

| | | | |
|--|------------------|------------------|------------------|
| 31 – 60 Days | 281 995 | 243 724 | 38 271 |
| 61 – 90 Days | 274 331 | 236 060 | 38 271 |
| 91 – 120 Days | 270 310 | 232 038 | 38 271 |
| 121 – 365 Days and over | 7 353 457 | 6 343 595 | 1 009 862 |
| Subtotal | 9 122 457 | 7 682 656 | 1 439 801 |
| Less Provision for doubtful debts | -7 353 457 | -7 353 457 | - |
| Total debtors per customer classification | 1 769 000 | 329 199 | 1 439 801 |

Summary of Trade Receivables per customer classification

| | <i>2011</i> | Total | Residential | National and Provincial Government |
|--|-------------|------------------|------------------|--|
| Current (0-30 days) | | 253 546 | -4 408 | 257 953 |
| 31 – 60 Days | | 385 928 | 280 436 | 105 492 |
| 61 – 90 Days | | 374 034 | 268 540 | 105 493 |
| 91 – 120 Days | | 207 789 | 106 010 | 101 779 |
| 121 – 365 Days and over | | 7 317 404 | 6 221 504 | 1 095 900 |
| Subtotal | | 8 538 701 | 6 872 082 | 1 666 619 |
| Less Provision for doubtful debts | | -990 640 | -990 640 | - |
| Total debtors per customer classification | | 7 548 061 | 5 881 442 | 1 666 619 |
| | | 2 012 | | 2 011 |

3.3. Reconciliation of the doubtful debt provision

| | | | |
|--|-----------|--|------------|
| Balance at beginning of the year | 990 640 | | 4 697 142 |
| Contributions to provision | | | |
| Doubtful debts written off against provision | - | | - |
| Reversal of provision | 6 362 817 | | -3 706 502 |
| Balance at end of year | 7 353 457 | | 990 640 |

3.4. Trade and other receivables past due but not impaired

| | | | |
|-------------------|---------|--------------|--------------|
| 1 Month past due | 495 227 | | 446 150 |
| 2 Months past due | 498 052 | | 452 774 |
| | 993 278 | | 898 924 |
| | | 2 012 | 2 011 |

3.5. Trade and other receivables impaired

| | | | |
|------------------------|-----------|--|-----------|
| 3 months past due | 4 842 145 | | 1 691 949 |
| Over 3 months past due | 4 609 799 | | 6 449 050 |
| | 9 451 944 | | 8 936 029 |

Dannhauser Municipality

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2012

The fair value of the trade and other receivables approximates their carrying amount.

4 INVESTMENTS

Call investments

| | |
|-------------------|-------------------|
| 10 617 305 | 22 933 673 |
| <u>10 617 305</u> | <u>22 933 673</u> |

Call investments consists of 32 day call accounts and notice accounts with reputable financial institutions.

5 PROPERTY, PLANT AND EQUIPMENT

5.1. Details of property

The municipality owns a number of properties.

A full list of all the properties owned by the municipality and their details are available at the registered Office of the Municipality.

5.2. PROPERTY, PLANT AND EQUIPMENT

| | 2 012 | 2 011 |
|--|---------------------|---------------------|
| Cost | 514 032 373 | 486 270 304 |
| Accumulated depreciation and impairment losses | <u>-281 009 614</u> | <u>-258 056 496</u> |
| Net carrying value | <u>233 022 759</u> | <u>228 213 808</u> |

There is no restriction on Property Plant and Equipment

There are no property plant and equipment pledged as security.

There are no iddling, full depreciated still use, retired assets held fore sale and disposed property plant and equipment.

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

PROPERTY, PLANT AND EQUIPMENT
Note: 5.2. (continued)

| 2012 | Reconciliation of carrying value | Land | Buildings | Infrastructure | Heritage | Machinery & Equipment | Furniture & Office Equipment | Computer Equipment | Motor Vehicles | Total |
|------|--|------------------|-------------------|--------------------|---------------|-----------------------|------------------------------|--------------------|------------------|--------------------|
| | | R | R | R | R | R | R | R | R | R |
| | As at 1 July 2011 | 1 138 950 | 88 539 174 | 131 774 008 | 55 576 | 790 269 | 788 938 | 610 251 | 4 516 642 | 228 213 808 |
| | Costs/Valuation | 1 138 950 | 212 605 957 | 262 153 281 | 55 576 | 1 446 071 | 1 507 519 | 1 501 319 | 5 861 631 | 486 270 304 |
| | Change in accounting estimate | - | - | - | - | - | - | - | - | - |
| | Accumulated depreciation and impairment losses | - | -124 066 783 | -130 379 273 | - | -655 802 | -718 581 | -891 068 | -1 344 989 | -258 056 496 |
| | Acquisitions | 2 294 771 | 3 351 346 | 2 445 266 | -0 | 326 936 | 645 383 | 553 961 | 5 012 977 | 14 630 639 |
| | Work In Progress | - | 3 302 517 | 9 797 973 | - | - | - | - | - | 13 100 490 |
| | Depreciation | - | -4 417 592 | -16 373 470 | - | -217 513 | -240 234 | -293 582 | -1 122 515 | -22 664 906 |
| | Asset disposal | - | - | - | - | -9 907 | -10 637 | -33 188 | -99 043 | -152 775 |
| | Depreciation on disposal | - | - | - | - | 6 206 | 526 | - | 24 208 | 30 940 |
| | Impairment loss | - | - | - | - | -53 190 | -18 299 | -23 350 | -40 598 | -135 437 |
| | As at 30 JUNE 2012 | 3 433 721 | 90 775 445 | 127 643 777 | 55 576 | 842 801 | 1 165 677 | 814 092 | 8 291 671 | 233 022 759 |
| | Costs/Valuation | 3 433 721 | 219 259 820 | 274 396 520 | 55 576 | 1 779 213 | 2 153 428 | 2 055 280 | 10 898 816 | 514 032 373 |
| | Accumulated depreciation and impairment losses | - | -128 484 375 | -146 752 743 | - | -936 412 | -987 751 | -1 241 188 | -2 607 145 | -281 009 614 |

Note : 5.2 PROPERTY, PLANT AND EQUIPMENT

| 2011 | Reconciliation of carrying value | Land | Buildings | Infrastructure | Heritage | Machinery & Equipment | Furniture & Office Equipment | Computer Equipment | Motor Vehicles | Total |
|------|--|------------------|-------------------|--------------------|---------------|-----------------------|------------------------------|--------------------|------------------|--------------------|
| | | R | R | R | R | R | R | R | R | R |
| | As at 1 July 2010 | 1 138 950 | 92 846 810 | 147 919 797 | 55 576 | 590 308 | 731 234 | 1 327 480 | 1 862 771 | 245 870 860 |
| | Costs/Valuation | 1 138 950 | 212 605 957 | 262 153 281 | 55 576 | 1 099 975 | 1 264 742 | 1 382 645 | 2 727 511 | 482 428 637 |
| | Change in accounting policy | - | - | - | - | - | - | - | - | - |
| | Accumulated depreciation and impairment losses | - | -119 759 147 | -114 233 484 | - | -509 667 | -533 508 | -55 165 | -864 740 | -236 557 777 |
| | Acquisitions | - | - | - | - | 346 096 | 242 777 | 118 674 | 2 638 121 | 3 345 668 |
| | Depreciation | - | -4 307 636 | -16 145 789 | - | -146 135 | -185 073 | -339 903 | -480 249 | -21 604 785 |
| | Impairment loss | - | - | - | - | - | - | - | - | - |
| | Reversal of impairment loss | - | - | - | - | - | - | - | - | - |
| | As at 30 June 2011 | 1 138 950 | 88 539 174 | 131 774 008 | 55 576 | 790 269 | 788 938 | 1 106 251 | 4 020 643 | 228 213 809 |
| | Costs/Valuation | 1 138 950 | 212 605 957 | 262 153 281 | 55 576 | 1 446 071 | 1 507 519 | 1 501 319 | 5 365 632 | 485 774 305 |
| | Accumulated depreciation and impairment losses | - | -124 066 783 | -130 379 273 | - | -655 802 | -718 581 | -395 068 | -1 344 989 | -257 560 496 |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| 6 | INTANGIBLE ASSETS | 2 012 | 2 011 |
|------|---|--------------------------|--------------------------|
| 6.1. | Reconciliation of carrying value | Computer Software | Computer Software |
| | | R | R |
| | 2012 | | |
| | As the Beginning of the Year | 64 191 | 120 299 |
| | Cost | 285 141 | 285 141 |
| | Change in accounting policy | -220 950 | -164 842 |
| | Accumulated amortisation and impairment losses | | |
| | Acquisitions | 56 108 | - |
| | Amortisation | -55 321 | -56 108 |
| | Carrying value of disposals | - | - |
| | Cost | - | - |
| | Accumulated amortisation | - | - |
| | Impairment loss | - | - |
| | Reversal of impairment loss | - | - |
| | As at the end of the year | 64 978 | 64 191 |
| | Cost | 341 249 | 285 141 |
| | Accumulated amortisation and impairment losses | -276 271 | -220 950 |
| 7 | INVESTMENT PROPERTY CARRIED AT COST | Vacant Land | Vacant Land |
| | | R | R |
| 7.1 | Reconciliation of carrying value | | |
| | As at Beginning of the Year | 6 508 000 | 6 508 000 |
| | Cost | 6 508 000 | 6 508 000 |
| | Change in accounting policy | - | - |
| | Accumulated depreciation and impairment losses | - | - |
| | Acquisitions | 2 200 000 | - |
| | Depreciation | - | - |
| | Carrying amount of disposals | - | - |
| | Cost | - | - |
| | Accumulated depreciation | - | - |
| | Impairment loss/ Reversal of impairment loss | - | - |
| | As at the End of the Year | 8 708 000 | 6 508 000 |
| | Cost | 8 708 000 | 6 508 000 |
| | Accumulated depreciation and impairment losses | - | - |
| 7.2 | Investment property pledged as security | | |
| | There are no investment properties pledged as security in the current year. (2012: nil) | | |
| 7.3 | Rental income from investment properties | | |
| | Refer note 15. | | |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | 2 012 | 2 011 |
|--|--------------------------|-------------------------|
| 8 RETIREMENT BENEFITS OBLIGATION | | |
| 8.1. Defined benefit plan | | |
| Statement of Financial Position obligation for : | | |
| Post-employment medical benefits | 11 786 918 | 5 316 046 |
| Pension benefits | - | - |
| Balance at the end of year | <u><u>11 786 918</u></u> | <u><u>5 316 046</u></u> |
| 8.2. Statement of Financial Performance obligation for : | | |
| Post-employment medical benefits | 6 470 872 | 5 316 046 |
| Pension Benefits : | - | - |
| Defined Benefit Funds | - | - |
| Defined Contribution funds | - | - |
| Total, included in employee benefits expense | <u><u>6 470 872</u></u> | <u><u>5 316 046</u></u> |
| 8.3. Post-Retirement Medical Aid plan | | |
| The municipality operates on 6 accredited medical aid schemes, namely Key health, Discovery, Hosemed. Bonital , Samwumed and LA Health. Pensioners continue on the option they belonged to on the day on their retirement. | | |
| Movement in the defined benefit obligation is as follows : | | |
| Balance at the beginning of the year | 5 316 046 | - |
| Current service cost | 6 470 872 | 5 316 046 |
| Interest costs | - | - |
| Actuarial (gains) losses | - | - |
| Benefit payments | - | - |
| Balance at end of year | <u><u>11 786 918</u></u> | <u><u>5 316 046</u></u> |
| Key assumptions used | | |
| The principal actuarial assumptions used will be as follows | | |
| Discount rates used | 7.50% | 8% |
| General increase to medical aid contributions | 12% | 12% |
| Salary Inflation | 8% | 8% |
| Expected retirement age Male | 63 | 63 |
| Expected retirement age Female | 60 | 60 |
| Proportion continuing membership at retirement | 100% | 100% |
| Proportion of retiring members who are married | 90% | 90% |
| Percentage Contribution on Medical Aid | 20% | 20% |
| Future pension medical Inflation | 12% | 12% |
| Other assumption : | | |
| Age of spouse - Husbands 5 years older than wives | | |
| Mortality of in-service members : | 2% | 2% |
| In accordance with the SA 85 - 90 (Light) ultimate table (rated down 3 years for females) | | |
| Mortality of pensioners : | 12% | 12% |
| In accordance with the PA (90) ultimate male and female tables | | |
| (No explicit assumption was made about additional mortality or health care costs due to AIDS) | | |
| Percentage of in-service members withdrawing before retirement : | | |
| age 20 | 85.72% | 86% |
| age 25 | 65.76% | 66% |
| age 30 | 50.20% | 50% |
| age 35 | 20.31% | 20% |
| age 40 | 6.23% | 6% |
| age 45 | 4% | 4% |
| age 50 | 2% | 2% |
| age 55+ | 1% | 1% |
| age 60+ | 0% | 0% |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

2 012 2 011

8.4. Pension benefits

The amount recognised in Statement of Financial Position were determined as follows :

| | | |
|--|----------|----------|
| Present value of funded obligations | - | - |
| Present value of the defined benefit obligation - partially or wholly funded | - | - |
| Asset not recognised due to future surplus policy not yet established | - | - |
| Surplus in the Statement of Financial Position | <u>-</u> | <u>-</u> |

RETIREMENT BENEFITS OBLIGATION (continued)

Movement in the defined benefit obligation is as follows

| | | |
|--|----------|----------|
| Balance at the beginning of the year | - | - |
| Current Service Costs | - | - |
| Contributions by plan participants | - | - |
| Actuarial losses | - | - |
| Interest costs | - | - |
| Benefit payment | - | - |
| Obligation not recognised due to future surplus policy not yet established | - | - |
| Balance at end of year | <u>-</u> | <u>-</u> |

Movement in the fair value of plan assets is as follows :

| | | |
|---|----------|----------|
| Actuarial gain (losses) | - | - |
| Employer Contributions | - | - |
| Employee Contributions | - | - |
| Benefit payment | - | - |
| Expected return of assets | - | - |
| Asset not recognised due to future surplus policy not yet established | - | - |
| Balance at end of year | <u>-</u> | <u>-</u> |

The amount recognised in the Statement of Financial Performance were as follows :

| | | |
|---|----------|----------|
| Current service cost - Defined Benefit Funds | - | - |
| Current service cost - Defined Contribution Funds | - | - |
| Total Included in employee benefit expense | <u>-</u> | <u>-</u> |

9 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| | | |
|--|-------------------|------------------|
| Trade creditors | -0 | - |
| Retentions on contracts with creditors | 1 186 490 | 1 186 490 |
| Staff leave accrual | 948 693 | 807 425 |
| Accrued lease liability | 26 189 | 9 322 |
| Lease smoothing (asset) / liability | - | - |
| PAYE , UIF and SDL liability, | 1 888 721 | 5 240 842 |
| Salary control-leave encashment | 559 706 | - |
| Audit fee accrual | - | - |
| Trade accruals | 10 593 428 | 1 691 949 |
| Total creditors | <u>15 203 227</u> | <u>8 936 029</u> |

The fair value of trade and other payables approximates their carrying amounts. Trade creditors and accruals are normally paid within 30 – 60 days.

10 VAT Receivable

| | | |
|----------------|------------------|------------------|
| VAT receivable | <u>1 623 817</u> | <u>2 641 504</u> |
|----------------|------------------|------------------|

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | 2 012 | 2 011 |
|--------------------------------|--|------------------|------------------|
| 11 Provision | | | |
| Performance Bonus | | - | - |
| Land fill site | | 3 255 000 | 3 100 000 |
| Total Provision | | <u>3 255 000</u> | <u>3 100 000</u> |
| Landfill Site | | | |
| As at beginning of the year | | 3 100 000 | 39 500 |
| Contribution to Provision | | 155 000 | 3 060 500 |
| Expenditure Incurred | | - | - |
| Balance at the end of the year | | <u>3 255 000</u> | <u>3 100 000</u> |

The provision for landfill site is the cost of levelling the land in the next financial year. The landfill site is levelled on an annual basis, the provision is calculated based on the costs

| | | Restated 2 011 | Previously Stated 2 011 |
|--|--|--------------------|----------------------------|
| 12 MUNICIPAL INFRASTRUCTURE GRANT - UNSPENT | | | |
| MIG | | 3 071 313 | 3 071 313 |
| Recognition of Vat for MIG for Prior Years | | <u>(3 071 313)</u> | <u>-</u> |
| | | - | <u>3 071 313</u> |

Correction of prior year error - Vat expense for MIG not recognised on last year MIG expenditure now corrected

| | | 2 012 | 2 011 |
|---|--|------------------|-------------------|
| MUNICIPAL INFRASTRUCTURE GRANT - UNSPENT | | | |
| MIG | | (197 996) | 3 071 313 |
| Recognition of Vat for MIG for Prior Years | | <u>-</u> | <u>-3 071 313</u> |
| | | <u>(197 996)</u> | <u>-</u> |

| | | Restated 2 011 | Previously Stated 2 011 |
|--|--|--------------------|----------------------------|
| UNSPENT CONDITIONAL GRANTS AND RECEIPTS | | | |
| Unspent Conditional Grant and Receipts | | 11 302 706 | 11 302 706 |
| Recognition of Vat for MIG for Prior Years | | <u>(3 071 313)</u> | <u>-</u> |
| | | <u>8 231 393</u> | <u>11 302 706</u> |

Correction of prior year error - Vat expense for MIG not recognised on last year MIG expenditure now corrected

| | | 2 012 | 2 011 |
|--|--|------------------|-------------------|
| UNSPENT CONDITIONAL GRANTS AND RECEIPTS | | | |
| Unspent Conditional Grant and Receipts | | 1 372 884 | 11 302 706 |
| Recognition of Vat for MIG for Prior Years | | <u>0</u> | <u>-3 071 313</u> |
| | | <u>1 372 884</u> | <u>8 231 393</u> |

12 UNSPENT CONDITIONAL GRANTS AND RECEIPTS
Unspent Conditional Grants from other spheres of 2012 Government

| | Balance unspent at beginning of year 1 July 2011 | Current year receipts | Conditions met - transferred to revenue | Conditions still to be met - remain liabilities 30 June 2012 |
|--|--|-----------------------|---|--|
| MIG grant | | 15 337 000 | -15 534 996 | -197 996 |
| Emafusini KNPA roads project | 112 437 | | - | 112 437 |
| Financial management grant | | | - | |
| Fire grant ex Amajuba | 37 897 | | -37 897 | |
| GIS grant | 66 053 | | - | 66 053 |
| Health RSC-cemetery project | 58 336 | | - | 58 336 |
| IMP monitoring system (KZN Province) | 58 830 | | - | 58 830 |
| Kwagule bakery-reserves | 53 440 | | - | 53 440 |
| Land use management systems | 102 354 | | - | 102 354 |
| Management support programme | 1 495 219 | | -1 495 219 | |
| Municipal systems improvements | 114 550 | | -114 550 | |
| Performance management systems | 310 262 | | -310 262 | |
| Rural infrastructure | 344 148 | | - | 344 148 |
| Storm relief | 2 154 759 | | - | 2 154 759 |
| T/C IDP (inland planning) | 89 813 | | -89 813 | |
| T/C administrative facilities | 44 336 | | -44 336 | |
| Tourism support grant | 208 529 | | -147 150 | 61 379 |
| Valuation roll-grant | 165 000 | | -165 000 | |
| MFMA grant | 160 001 | | -160 001 | |
| MAP grant | 8 450 | | -8 450 | |
| Eletrification Grant | | 8 000 000 | -10 139 480 | -2 139 480 |
| FMG grant | | 1 250 000 | -1 250 000 | - |
| MSIG grant | 234 800 | 790 000 | -1 467 455 | -442 655 |
| Amajuba DC grant | 232 647 | | -232 647 | |
| MIG retention | 897 092 | | -523 555 | 373 537 |
| Mig Guarantee | 831 208 | | -63 465 | 767 743 |
| Free basic electricity | 244 287 | | -244 287 | |
| Capacity building grant | 206 946 | | -206 946 | |
| Total Unspent Conditional Grants and Receipts | <u>8 231 393</u> | <u>25 377 000</u> | <u>-32 235 509</u> | <u>1 372 884</u> |
| Non-current unspent conditional grants and receipts | <u>8 231 393</u> | <u>25 377 000</u> | <u>-32 235 509</u> | <u>1 372 884</u> |

35

12 Unspent Conditional Grants from other spheres of 2011 Government - Cont

| | Balance unspent at beginning of year 1 July 2010 | Current year receipts | Conditions met - transferred to revenue | Conditions still to be met - remain liabilities June 2011 |
|------------------------------|--|-----------------------|---|---|
| MIG grant | 4 299 640 | 8 961 000 | 13 260 640 | |
| Emafusini KNPA roads project | 112 437 | | | 112 437 |
| Financial management grant | 273 898 | | 273 898 | |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | | | |
|--|-------------------|-------------------|-------------------|------------------|
| Fire grant ex Amajuba | 37 897 | | | 37 897 |
| GIS grant | 66 053 | | | 66 053 |
| Health RSC-cemetery project | 58 336 | | | 58 336 |
| IMP monitoring system (KZN Province) | 58 830 | | | 58 830 |
| Kwagule bakery-reserves | 53 440 | | | 53 440 |
| Land use management systems | 116 368 | | 14 014 | 102 354 |
| Management support programme | 1 495 219 | | | 1 495 219 |
| Municipal systems improvements | 307 407 | | 192 857 | 114 550 |
| Performance management systems | 310 262 | | | 310 262 |
| Rural infrastructure | 344 148 | | | 344 148 |
| Storm relief | 2 154 759 | | | 2 154 759 |
| T/C IDP (inland planning) | 89 813 | | | 89 813 |
| T/C administrative facilities | 44 336 | | | 44 336 |
| Tourism support grant | 208 529 | | | 208 529 |
| Valuation roll-grant | 165 000 | | | 165 000 |
| MFMA grant | 160 001 | | | 160 001 |
| MAP grant | 8 450 | | | 8 450 |
| MPRA grant | -39 473 | | -39 473 | - |
| FMG grant | 1 687 371 | 3 000 000 | 4 687 371 | - |
| MSIG grant | 22 778 | 750 000 | 537 978 | 234 800 |
| Amajuba DC grant | 232 647 | | | 232 647 |
| MIG retention | 153 015 | 744 077 | - | 897 092 |
| Mig Guarantee | - | 831 208 | - | 831 208 |
| Free basic electricity | 244 287 | | | 244 287 |
| Capacity building grant | 206 946 | | | 206 946 |
| Non-current unspent conditional grants and receipts | 12 872 394 | 14 286 284 | 18 927 285 | 8 231 393 |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | 2012 | 2011 |
|--------------|---|-----------|-----------|
| 12.1. | DESCRIPTION OF GRANTS AND SUBSIDIES | | |
| | The description of the major grants and subsidies are detailed below: | | |
| | MIG Grant | | |
| | This grant is used to address backlogs in municipal infrastructure required for the provision of basic services in the community. The unspent portion will be used to complete the same infrastructure projects. | | |
| | MSIG Grant | | |
| | This grant is used for infrastructure and for capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills | | |
| | FMG Grant | | |
| | The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. The unspent portion will be used to complete the same projects | | |
| | MSP Grant | | |
| | The main objective of this grant is to assist the municipality with the conversion from IMFO to GRAP. The grant was given in order to fund expenditure that was incurred to contract a consultant to assist with the conversion | | |
| 12.2 | Changes in levels of government grants | | |
| | Based on the allocations set out in the Division of Revenue Act, (Act 12 of 2009), no significant changes in the level of government grant funding are expected over the forthcoming three financial years. | | |
| 13 | PROPERTY RATES | | |
| | <u>Actual</u> | | |
| | Residential | 2 632 242 | 2 550 418 |
| | Commercial | 5 256 788 | 5 093 380 |
| | State | 265 463 | 257 211 |
| | Total property rates | 8 154 494 | 7 901 010 |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | 2 012 | 2 011 |
|---|--------------------|--------------------|
| | R | R |
| PROPERTY RATES (continued) | | |
| 13 | | |
| Valuations | | |
| Residential | 682 277 600 | 320 266 000 |
| Commercial | 81 601 000 | 491 881 400 |
| State | 144 414 000 | 89 122 000 |
| Total Property Valuations | <u>908 292 600</u> | <u>901 269 400</u> |
| <p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 02 June 2008. Interim valuations are processed as when municipality become aware of changes in the individual property values due to alterations</p> | | |
| Rate Ranges | | |
| Rates range - Dannhauser | | |
| Land | 7.11/R | 0.2235749c/R1 |
| Vacant Land | 7.11/R | 0.2784121c/R1 |
| Buildings | R93.28 - R7019.32 | 0.0115990c/R1 |
| Rates range - Hattingspruit | | |
| Land | 7.11/R | 0.069750c/R1 |
| Vacant Land | 7.11/R | 0.069750c/R1 |
| Buildings | R93.28 - R7019.32 | 0.030616c/R1 |
| Rates range - Durnacol | | |
| Land | 7.11/R | 0.2235749c/R1 |
| Vacant Land | 7.11/R | 0.2784121c/R1 |
| Buildings | R93.28 - R7019.32 | 0.0115990c/R1 |
| Rates range - Emfaseni | | |
| Land | 7.11/R | 0.225750c/R1 |
| Vacant Land | 7.11/R | 0.225750c/R1 |
| Buildings | R93.28 - R7019.32 | 0.121540c/R1 |
| Non rateable land and buildings | 86 934 000 | 86 934 000 |
| Rebate granted to qualifying pensioners | 10% | 10% |
| <p>Rates are levied on an annual basis with the final date of payment being 30 June 2012</p> | | |
| 14 | | |
| SERVICE CHARGES | | |
| Refuse removal | 755 190 | 702 729 |
| Total service charges | <u>755 190</u> | <u>702 729</u> |
| 15 | | |
| RENTAL RECEIVED | | |
| Rental of investment properties | 103 909 | 97 526 |
| Total rentals | <u>103 909</u> | <u>97 526</u> |
| 16 | | |
| INTEREST EARNED | | |
| Interest earned on long outstanding receivables | - | - |
| Interest earned on external investments | 1 083 824 | 1 175 318 |
| Total interest | <u>1 083 824</u> | <u>1 175 318</u> |
| 17 | | |
| FINES | | |
| Library fines | 1 340 | 14 392 |
| Traffic fines | 155 850 | 157 497 |
| Total fines | <u>157 190</u> | <u>171 889</u> |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | 2 012 | 2 011 |
|--|-------------------|-------------------|
| 18 LICENCES AND PERMITS | | |
| Plan fees & Divers License | 278 974 | 289 137 |
| Learners licence | 280 530 | 348 304 |
| Vehicle licence | 596 641 | 494 456 |
| Total licences and permits | <u>1 156 145</u> | <u>1 131 896</u> |
| 19 GOVERNMENT GRANTS AND SUBSIDIES | | |
| Equitable share | 39 598 000 | 34 578 488 |
| MSIG | 1 582 005 | 965 634 |
| FMG | 1 250 000 | 4 961 269 |
| Councillors allowances grants | - | - |
| MIG grant | 18 606 309 | 10 189 327 |
| Other Government grants and subsidies | 8 487 213 | -25 459 |
| Total Government grants and subsidies | <u>69 523 527</u> | <u>50 669 260</u> |
| 19 GOVERNMENT GRANTS AND SUBSIDIES (continued) | | |
| 19.1 Equitable Share | | |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. | -39 598 000 | -34 578 488 |
| 19.2 Councillors allowances grant | | |
| The councillors' allowances grant is an allocation of the | - | - |
| 20 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS | | |
| Other Income | | |
| Rates clearing certificates | 17 432 | 15 965 |
| Cemetery fees | 12 938 | 19 782 |
| Encroachments | 1 110 | 1 351 |
| Drivers license cards | 184 585 | 194 414 |
| Sundry Income | 151 576 | 122 868 |
| Valuation Costs - Interims | 67 974 | - |
| Total Other Income | <u>435 616</u> | <u>354 380</u> |
| 21 EMPLOYEE RELATED COSTS | | |
| Employee related costs – Salaries and Wages | 10 288 097 | 8 800 796 |
| Employee related costs – Casual Salaries and Wages | 577 176 | |
| Employee related costs – Contributions for UIF, pensions | 1 703 484 | 1 497 964 |
| Travel, Motor Car, Accommodation, Subsistence and Housing benefits and allowances | 4 710 625 | 4 483 185 |
| Overtime Payments | 18 102 | 16 504 |
| Performance and other bonuses | 515 143 | 372 072 |
| Other employee related costs | 831 897 | 785 339 |
| Remuneration of councillors separately disclosed in note 22 | 100 503 | 195 405 |
| Total employee related costs | <u>14 400 967</u> | <u>12 062 576</u> |
| Remuneration of the Municipal Manager | | |
| Annual Remuneration | 386 606 | 379 527 |
| Performance Bonus | 67 389 | |
| Travel, Motor Car, Accommodation, Subsistence and other allowances | 312 647 | 145 215 |
| Contributions to UIF, Medical and Pension Funds | 50 543 | 43 422 |
| Total | <u>817 184</u> | <u>568 164</u> |
| Remuneration of the Chief Finance Officer | | |
| Annual Remuneration | 596 305 | 97 234 |
| Performance Bonus | - | |
| Travel, Motor Car, Accommodation, Subsistence and other allowances | - | 27 326 |
| Contributions to UIF, Medical and Pension Funds | - | 24 310 |
| Total | <u>596 305</u> | <u>148 870</u> |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | | | |
|-----------|--|-------------|---------------------------|-----------------------------|
| 21 | EMPLOYEE RELATED COSTS (continued) | | | |
| | Remuneration of individual executive directors | 2012 | Technical Services | Coporate Services |
| | | | | Community Services |
| | Annual Remuneration | | 252 008 | 227 567 |
| | Performance and other bonuses (13th Cheque R18 049.42) | | 21 203 | 18 049 |
| | Travel, Motor Car, Accommodation, Subsistence and other allowances | | 58 231 | 60 832 |
| | Contributions to UIF, Medical and Pension Funds | | 65 051 | 68 137 |
| | Total | | 396 493 | 413 187 |
| | | | | |
| | Remuneration of individual executive directors | 2011 | Technical Services | Secretarial Services |
| | | | | Health Services |
| | Annual Remuneration | | 226 065 | 211 256 |
| | Performance and other bonuses | | 18 425 | 16 270 |
| | Travel, Motor Car, Accommodation, Subsistence and other allowances | | 61 996 | 65 416 |
| | Contributions to UIF, Medical and Pension Funds | | 55 673 | 63 432 |
| | Total | | 362 159 | 394 414 |
| | | | | |
| | | | 2 012 | 2 011 |
| 22 | REMUNERATION OF COUNCILLORS | | | |
| | Executive Mayor (allowance and travel) | | 408 927 | 270 000 |
| | Deputy Executive Mayor (allowance and travel) | | 256 520 | 266 615 |
| | Speaker (allowance and travel) | | 327 638 | 275 019 |
| | Executive Committee Members (allowance and travel) | | 455 204 | 512 709 |
| | Councillors (allowance and travel) | | 2 895 772 | 2 764 347 |
| | Councillors' pension and medical aid contributions | | - | - |
| | All Councillors' phone and subsistence allowances | | - | - |
| | Executive Councillors | | | |
| | Non-executive councillors | | | |
| | Total councillors' remuneration | | <u>4 344 060</u> | <u>4 088 690</u> |
| | Summary: | | | |
| | Executive councillors | | 1 120 651 | 1 049 324 |
| | Other councillors | | <u>3 223 409</u> | <u>3 039 366</u> |
| | | | <u>4 344 060</u> | <u>4 088 690</u> |
| 22 | REMUNERATION OF COUNCILLORS (continued) | | | |
| | The Executive Mayor and Speaker are fulltime while Deputy Executive Mayor, and Executive Committee Members are all part time. The Executive Mayor is entitled to the use and enjoyment of a vehicle at no cost to her. An office is also provided to the mayor which includes a full time personal assistant | | | |
| | | | 2 012 | 2 011 |
| 23 | DEPRECIATION,AMORTISATION AND IMPAIRMENT | | | |
| | Depreciation on property,plant and equipment | | 22 664 906 | 21 604 785 |
| | Amortisation-intangible assets | | 55 321 | 56 108 |
| | Impairment | | 135 437 | - |
| | | | <u>22 855 664</u> | <u>21 660 893</u> |
| 24 | Loss on Sale of Asset | | | |
| | Loss on Sale of Asset | | 121 834 | - |
| | Total finance costs | | <u>121 834</u> | <u>-</u> |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | 2 012 | 2 011 |
|-----------|--------------------------------------|--------------------------|--------------------------|
| 25 | REPAIRS AND MAINTENANCE | | |
| | Road marking | - | - |
| | Streets and drainage | 387 123 | 1 057 369 |
| | Sidewalks | 281 062 | 117 227 |
| | Refuse site | 119 623 | 71 416 |
| | Fire houses | - | 33 790 |
| | Tool and Equipment | 5 659 | 3 881 |
| | Bridges | 169 818 | 207 983 |
| | Equipment | 272 826 | 167 553 |
| | IT support | 2 389 | 34 411 |
| | Fencing | 618 046 | 462 706 |
| | Vehicle maintenance | 310 364 | 320 515 |
| | Building and offices | 57 622 | 304 572 |
| | Office Furniture And Equipment | 3 616 | 27 965 |
| | Plant and Equipment | 84 402 | 426 708 |
| | Festival Decorations | 8 100 | 5 410 |
| | Garden and Open Space | 18 000 | 8 246 |
| | Roads Signs | 16 199 | |
| | Street Lights | 63 | 14 651 |
| | Total | <u>2 354 913</u> | <u>3 264 404</u> |
| | | | |
| | | 2 012 | 2 011 |
| 26 | GRANTS AND SUBSIDIES EXPENSES | | |
| | Cemetery Upgrade | - | 121 |
| | Library Grant | 236 554 | - |
| | Equitable share : FBS & FBE | 403 516 | 606 698 |
| | Electrification Grant | 8 000 000 | - |
| | Lums | - | 14 014 |
| | MIG Municipal Infrastructure Grant | - | 10 189 327 |
| | MPRA Municipal Prop Rates Act | - | -39 473 |
| | FMG Finance Management Grant | 1 410 001 | 4 961 269 |
| | MSIG – IMFO technician | 1 131 628 | 965 634 |
| | Total | <u>11 181 699</u> | <u>16 697 591</u> |
| | | | |
| 27 | GENERAL EXPENSES | | |
| | Advertisements | 295 549 | 136 211 |
| | Audit fees | 1 226 576 | -566 518 |
| | Bank charges | 110 753 | 117 025 |
| | Books and publications | 1 263 | 5 743 |
| | Burial of destitute | 124 626 | 148 376 |
| | Catering | 121 501 | 326 332 |
| | Chemicals | 20 452 | 13 300 |
| | Cleaning materials | 53 259 | 26 740 |
| | Commemoration | 510 767 | - |
| | Condolatory fund | 4 220 | 61 256 |
| | Conferences and seminars | 475 664 | 309 076 |
| | Council ward committee | 1 041 987 | 348 090 |
| | Culture | 387 856 | 346 999 |
| | Disabled projects | 77 158 | 81 083 |
| | Disaster rehabilitation | 460 014 | - |
| | Electricity | 899 462 | 442 853 |
| | Entertainment | 84 055 | 80 712 |
| | Facilitation | 26 330 | 1 155 |
| | Gender | 575 391 | 399 159 |
| | Hire of Machinery | 4 818 687 | 3 031 250 |
| | Insurance | 457 331 | 616 658 |
| | Loose tools | 495 | 948 |
| | LED | 91 495 | 468 459 |
| | Legal costs | 116 246 | 303 244 |
| | Levies | 25 | - |
| | License fees | 16 452 | 22 799 |
| | Marketing and corporate | 193 511 | 163 388 |
| | Mayoral car | 39 380 | 9 697 |
| | Mayoral fund | 105 197 | 347 342 |
| | Mayoral projects | 1 532 | 319 418 |
| | Mayoral publicity | 215 963 | 300 778 |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| GENERAL EXPENSES CONT | 2 012 | 2 011 |
|--------------------------------------|-------------------|-------------------|
| Maps and Plans | 6 105 | - |
| Membership fees | 400 000 | 1 650 |
| Municipal bulletin | - | 53 220 |
| Office equipment and furniture | -362 | 1 037 |
| Postage | 109 817 | 93 074 |
| Poverty alleviation | - | 130 000 |
| Printing and stationary | 301 919 | 139 177 |
| Professional services | 341 102 | 296 218 |
| Professional fees | 2 676 960 | 110 000 |
| Promote IDP | 291 466 | 192 425 |
| Promote public participation | 418 216 | 432 631 |
| Public Satisfaction Survey | 80 000 | 181 174 |
| Provision for leave pay | 141 268 | -318 622 |
| Provision for landfill restoration | - | - |
| Refuse bins/bags | 67 541 | 75 011 |
| Rental land | 148 089 | 36 655 |
| Rental office machine | 620 809 | 583 873 |
| Road Marking | 75 152 | 70 226 |
| Safety equipment | 59 786 | 336 |
| Security and alarms | 866 817 | 1 076 736 |
| Senior citizen / Disaster Management | 2 400 535 | 2 863 450 |
| Sports | 695 664 | 364 721 |
| Sports fields | 18 410 | 34 106 |
| Stock material and other | 2 514 | 777 275 |
| Subscriptions | 939 | 2 812 |
| Sundry expenses | 50 670 | 34 915 |
| Telephone | 745 210 | 550 647 |
| Tourism | 3 250 | - |
| Town cleaning | 2 997 | 4 300 |
| Training direct expense | 538 742 | 253 264 |
| Translations/interpretation | 1 274 | - |
| Transport official vehicles | 859 652 | 764 352 |
| Valuation appeal board | - | 148 584 |
| Valuation reduction | 1 323 835 | 178 470 |
| Water | 155 591 | 90 990 |
| Workman's compensation | 16 867 | -28 477 |
| Meeting Sub Travelling | 761 398 | 888 984 |
| HIV Aids Grant Expenditure | 611 361 | 261 899 |
| Subsistance and Travelling | 670 842 | 534 286 |
| Valuation Interim | - | 66 345 |
| By Law and Acts | 11 100 | 26 770 |
| Alternative Energy | 1 518 440 | 923 332 |
| Land Use Management (LUMS) | 26 526 | - |
| Councillors Exit Report | - | 155 720 |
| Provision for landfill Site | 155 000 | 3 060 500 |
| Unallocated Receipt | - | -972 494 |
| Provision for Bad Debt | 6 362 817 | -3 706 502 |
| Debtors/Vat Adjustment | -3 101 182 | 415 524 |
| Project Launch Costs | 112 447 | 167 100 |
| Ward Constituancy Meeting | 731 154 | 307 333 |
| Seeds and Plants | 886 | 3 496 |
| Skills Levy | 157 926 | 135 870 |
| Youth | 341 280 | 9 217 |
| | <u>34 334 023</u> | <u>19 333 185</u> |

28

| CASH GENERATED BY OPERATIONS | | |
|---|-------------------|----------------|
| Surplus for the year | -17 765 450 | -20 219 376 |
| Adjustment for : | | |
| Deperciation | 22 664 906.37 | 21 660 893 |
| Impairments | 135 437 | - |
| Amortisation | 55 321 | - |
| Provision for Bad Debts | - | - |
| Loss on disposal of asset | 121 834 | - |
| Interest on long term receivables | - | - |
| Provision for performance bonus and landfill site | - | - |
| Provision for Bad Debts | 6 362 817 | - |
| Leave pay accrual (non cash) | 141 268 | - |
| Smoothing of operating lease liability | - | - |
| Prior Year PAYE, VAT and SDL | - | -594 364 |
| Retirement benefits | 6 470 872 | - |
| Operating surplus before working capital changes: | <u>18 187 006</u> | <u>847 153</u> |

42

| | 2 012 | 2 011 |
|--|--------------|--------------|
| (Increase)/decrease in trade receivables | 5 933 479 | -6 776 977 |
| (Increase)/decrease in VAT receivables | 1 017 687 | -1 174 682 |

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | |
|--|--------------------------|--------------------------|
| PPE | -7 009 736 | 17 713 159 |
| Housing Development Fund | 6 697 | 3 402 |
| Increase/(decrease) in unspent conditional grant liability | -6 858 509 | -1 609 688 |
| Provisions | 155 000 | 2 988 753 |
| Revaluation Reserve | - | - |
| Increase/(Decrease) in Post Retirement Benefit | 6 470 872 | 5 316 046 |
| Increase/(decrease) in trade payables | 6 267 198 | -140 412 |
| Cash Generated From Operating Activities | <u>24 169 693</u> | <u>17 166 753</u> |

| | | |
|--|---------------------------|--------------------------|
| Sales of goods and services | 38 684 723 | 10 005 050 |
| Grants received | 66 452 214 | 50 669 260 |
| Interest received | 1 241 015 | 1 175 318 |
| (Increase)/decrease in VAT receivables | | -1 174 682 |
| Other receipt | 435 616 | 354 380 |
| (Increase)/Decrease in trade receivables | 1 148 056 | -6 776 977 |
| Increase/(Decrease) in provision | 155 000 | 2 988 753 |
| Cash receipts from ratepayers, government and other | <u>108 116 624</u> | <u>57 241 102</u> |

| | | |
|---|--------------------------|--------------------------|
| Employee costs | 18 745 028 | 16 151 265 |
| Other payments | 55 377 848 | 49 574 527 |
| Less Depreciation | -22 855 664 | -22 255 256 |
| Grant Expenditure | 11 181 699 | 16 697 591 |
| Increase/(Decrease) in Post Retirement Benefit | 6 470 872 | 5 316 046 |
| Increase/(Decrease) in conditional grants | -6 858 509 | -1 609 688 |
| Increase/(Decrease) in trade payables | 6 267 198 | -140 412 |
| (Increase)/Decrease in Provisions | | 2 988 753 |
| Cash paid to suppliers and employees | <u>68 328 470</u> | <u>66 722 826</u> |
| Cash Generated From Operating Activities | <u>39 788 154</u> | <u>-9 481 724</u> |

29 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

29.1 Unauthorised Expenditure

There was no identified unauthorised expenditure for the year under review (2012: nil)

29.2 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure of R20171.02 was incurred due to PAYE, UIF and SDL for April being paid over late to SARS.

29.3 Irregular expenditure

There was no identified irregular expenditure for the year under review (2012: nil)

30 PROPERTY, PLANT AND EQUIPMENT RESTATEMENT

Assets had been identified in the current financial period that had been previously written off but are still in use. The effect of this has been a credit to opening accumulated surplus and a debit to the cost of the assets

Effect on Property Plant and Equipment

Machinery and equipment
 Furniture and office equipment
 Computer equipment

| |
|--|
| |
|--|

| |
|--|
| |
|--|

Effect on opening accumulated surplus:

| |
|--|
| |
|--|

| |
|--|
| |
|--|

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

31 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT

31.1 Contributions to organised local government

| | | |
|---------------------------------------|-----------------------------|-----------------------------|
| Opening Balance | - | - |
| Council subscriptions | | |
| Amount paid – current year | | |
| Amount paid – previous years | | |
| Balance unpaid (included in payables) | <u> </u> | <u> </u> |

31.2 Audit fees

| | | |
|---------------------------------------|----------------|----------------|
| Opening balance | 977 418 | 945 500 |
| Current year audit fee | 977 418 | 977 418 |
| Amount paid – current year | - | - |
| Amount paid – previous years | -977 418 | -945 500 |
| Prior year under provision | - | - |
| Balance unpaid (included in payables) | <u>977 418</u> | <u>977 418</u> |

31.3 VAT

VAT input receivables and VAT output payables are shown in note 10. All VAT returns have been submitted by the due date throughout the year.

| | |
|------------------|------------------|
| <u>1 623 817</u> | <u>2 641 504</u> |
|------------------|------------------|

PAYE and UIF

| | | |
|--|-------------------|------------------|
| Opening balance | 1 062 829 | 1 062 829 |
| Current year payroll deductions | 39 827 075 | - |
| Amount paid – current year | - | - |
| Amount paid – previous years | - | - |
| Balance unpaid (included in payables) | <u>40 889 904</u> | <u>1 062 829</u> |

Pension and Medical Aid Deductions

| | | |
|---|-----------------------------|-----------------------------|
| Opening balance | - | - |
| Current year payroll deductions and council contributions | 432 965 | 531 614 |
| Amount paid – current year | -432 965 | -531 614 |
| Amount paid – previous years | - | - |
| Balance unpaid (included in payables) | <u> </u> | <u> </u> |

| | |
|-------|-------|
| 2 012 | 2 011 |
|-------|-------|

33.4 Councillor's arrear consumer accounts

| Total | Outstanding Less than 90 Days | Total |
|-------|-------------------------------------|-------|
|-------|-------------------------------------|-------|

The following councillors had arrear accounts outstanding for more than 90 days as at:

As at 30 June 2012:

There were no councillor's arrears consumer accounts during 2012.

| | | |
|-----------------------------|-----------------------------|-----------------------------|
| - | - | - |
| <u> </u> | <u> </u> | <u> </u> |

As at 30 June 2011

Councillor L M Ndlovu

Total Councillor Arrear Consumer Accounts

| | | |
|-----------------------------|-----------------------------|-----------------------------|
| - | - | - |
| <u> </u> | <u> </u> | <u> </u> |

Risk Management

In accordance with Section 62(1)(c)(i) of Municipal Finance Management Act (MFMA), the municipality has not yet adopted a risk management policy and fraud prevention plan.

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | 2 012 | 2 011 |
|-------------|---|----------------|-------------------|
| 34 | COMMITMENTS | | |
| 34.1 | Commitments in respect of capital expenditure | - | - |
| | - Approved and contracted for | #REF! | 11 067 906 |
| | Infrastructure | #REF! | 11 067 906 |
| | Community | - | - |
| | - Approved but not yet contracted for | - | - |
| | Infrastructure | - | - |
| | Community | - | - |
| | Total | <u>#REF!</u> | <u>11 067 906</u> |
| | - External Sources | #REF! | 11 067 906 |
| | Total | <u>#REF!</u> | <u>11 067 906</u> |
| 34.2 | Operating leases | | |
| | At the reporting date the entity has outstanding commitments under operating leases which fall c | - | - |
| | Operating leases - as lessee | - | - |
| | Within one year | 365 089 | 365 089 |
| | In the second to fifth year inclusive | 177 118 | 177 118 |
| | After five years | - | - |
| | Total | <u>542 207</u> | <u>542 207</u> |
| | Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years. Operating leases are containing 10% Escalations clause and renewals are defined on the lease agreement and there are no restriction on the leased properties. Assets subject to operating lease are listed under investment properties. | | |
| | Operating leases - as lessor | - | - |
| | Minimum lease payments due | - | - |
| | Within one year | 24 705 | 24 705 |
| | In the second to fifth year inclusive | 124 187 | 124 187 |
| | After five years | - | - |
| | Total | <u>148 892</u> | <u>148 892</u> |

Operating leases consist of the following:

Land and buildings that are let out by the municipality to residents in the Dannhauser community. No contingent rentals are receivable. The leases operate on a month to month basis. Operating leases containing escalation clauses are at 10% per annum.

35 RETIREMENT BENEFIT INFORMATION

The Council and its employees contribute to the Natal Joint Municipal Pension Fund's three funds which provide retirement benefits to such employees.

The funds are subject to the Pension Funds Act 1956, and are self administered, defined benefit plans. Pensions are calculated on the average annual pensionable emoluments during the last years of service. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

2 012

2 011

These are not treated as defined benefit plans as defined by IAS 19 *Employee Benefits*, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information. Certain employees of the municipality belong to the Natal Joint Municipal Pension Fund (retirement), Natal Joint Municipal Pension Fund (provident) and Natal Joint Municipal Pension Fund (superannuation) which are administered by the Province. These funds are subject to a triennial valuation. The last independent valuation was performed on the 31 March 2008 for the Superannuation fund and 31 March 2009 for the Retirement fund. These valuations indicated a surplus of R111.8 million (2009: R111.8 million) in respect of the Superannuation Fund and a surplus of R15.4 million (deficit of R 204.8 million in 2009) in respect of the Retirement fund.

The liabilities of the Provident Fund exceeded the assets, resulting in a deficit of R3.25 million. The deficit of R3.25 million (2009: R 3.25 million) will be met from future investment earnings therefore the Fund is considered financially sound. The last independent valuation was performed on the 31 March 2008 for the Pension fund.

All contributions made by Council in respect of employees retirement funding has been expensed and are included in employee related costs for the year.

36 CONTINGENT LIABILITY

There were no contingent liabilities for the year under review (2012: nil).

37 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any in-kind donations and assistance.

38 RELATED PARTIES

Compensation to councillors and other key management (refer to note 20 & 21):

Councillor PG Nair has a financial interest in Dannhauser Hydraulics Engineering which is a supplier of the Dannhauser Municipality

Related party balances

Amounts included in trade payables regarding related parties relate to Dannhauser Hydraulics Engineering

Related party transactions

Purchases from related parties

Dannhauser Hydraulics Engineering

9 560

9 560

There are no outstanding related party balances at year end (2012 : nil)

39 EVENTS AFTER THE REPORTING DATE

There are no identified events after reporting date which required disclosure or adjustment

DANNHAUSER MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

| | | 2 012 | 2 011 |
|--------------|---|---------------------------------------|---------------------------------------|
| 40 | RISK MANAGEMENT | | |
| 40.1. | Maximum credit risk exposure | | |
| | Credit risk consists mainly of cash investments, cash held by the bank and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. | | |
| | The municipality's trade receivables mainly consist of community debtors for services rendered by the municipality such as rates and refuses. | | |
| | Financial assets exposed to credit risk at year end were as follows: | | |
| | Cash at bank | 2 282 522 | -824 477 |
| | Investments | 10 617 305 | 22 933 673 |
| | Trade and other receivables | 2 174 438 | 8 107 917 |
| | These balances represent the maximum exposure to credit risk. | | |
| 40.2 | Liquidity risk | | |
| | The municipality's risk to liquidity is as a result of the | | |
| 40.3 | Interest rate risk | | |
| | As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. The municipality has no interest bearing liabilities | | |
| | At year end, financial instruments exposed to interest rate risk were as follows: | | |
| | Based on the movements of interest rates in the preceding two years an increase and decrease of 200 base points had been used in the sensitivity analysis. | | |
| | Investments | 10 617 305 | 22 933 673 |
| | Sensitivity Analysis: | | |
| | Effect on profit before tax | | |
| | | 2% increase in current interest rates | 2% increase in current interest rates |
| | Investments | 212 346 | 458 673 |
| 41 | RESTATEMENT OF COMPARATIVE INFORMATION | | |
| | Comparative figures have been restated as follows: | | |
| 41.1. | Change in accounting framework | | |
| | The municipality has adopted Generally Recognised Accounting Practice (GRAP) in the prior financial year and as such restated comparative amounts to reflect GRAP compliance in the 2011 financial year. The effect of the change in accounting policies are shown in note 42 | | |
| 41.2. | Reclassifications | | |
| | The municipality has reclassified the provision for leave pay and provision for audit fees from provisions in the prior year to accruals in the current year. Comparatives have been reclassified accordingly. | | |
| 42 | COMPARISON WITH THE BUDGET | | |
| | The comparison of the municipality's actual financial performance with that budgeted for is set out in Appendix B. | | |

DANNHAUSER MUNICIPALITY
NOTE 44 : STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION AS AT 30 JUNE
2012

| Financial Performance | Original Budget | Budget adjustment (i.t.o. S28 & S31 of the MFMA) | Final Budget | Actual Outcome | Variance | Actual Outcome as % of Final Budget | Reasons for variances |
|---|--------------------|--|-------------------|--------------------|--------------------|-------------------------------------|--|
| | R | R | R | R | R | % | |
| Property rates | 7 876 000 | - | 7 876 000 | 8 154 494 | -278 494 | -4% | The Municipality has recovered other rateable properties of which they were not taced previously |
| Service charges | 687 000 | - | 687 000 | 755 190 | -68 190 | -10% | The Municipality has recovered other rateable properties of which they were not taced previously |
| Interest earned | 1 084 000 | - | 1 084 000 | 1 083 824 | 176 | 0% | the rates of interest on banks vary on a day to day basis |
| Government grants and subsidies | 53 190 000 | - | 53 190 000 | 66 452 214 | -13 262 214 | -25% | |
| Other Income | 1 705 000 | -8 675 487 | 10 380 487 | 1 852 860 | 8 527 627 | 82% | |
| Total Revenue | 64 542 000 | -8 675 487 | 73 217 487 | 78 298 583 | -5 081 096 | -7% | |
| Employee related costs | 18 788 000 | 6 463 715 | 12 324 285 | 14 400 967 | -2 076 682 | -17% | There are vacant post that still need to be filled |
| Remuneration of councillors | 3 181 000 | -610 403 | 3 791 403 | 4 344 060 | -552 657 | -15% | there was an increse on Councillors remunerations according to the circular |
| Post Retirement Benefit | | | | 6 470 872 | | | |
| Depreciation, impairment and amortisation expense | 989 000 | 70 000 | 919 000 | 22 855 664 | -21 936 664 | -2387% | Impairment loss was reviewed |
| Finance costs | 2 035 000 | 922 000 | 1 113 000 | 121 834 | 991 166 | 89% | |
| Grants and subsidies expense | 16 322 000 | - | 16 322 000 | 11 181 699 | 5 140 301 | 31% | Thre are project that are still under construction |
| Other expenditure | 42 749 243 | 4 001 444 | 38 747 799 | 36 688 936 | 2 058 863 | 5% | other founds were used for capital expenditure purposes |
| Total Expenditure | 84 064 243 | 10 846 756 | 73 217 487 | 96 064 033 | -16 375 674 | -22% | |
| Surplus/(deficit) | -19 522 243 | -19 522 243 | 0 | -17 765 450 | 11 294 578 | 15% | |
| Capital Expenditure & Funds Sources | | | | | | | |
| Capital Expenditure | | | | | | | |
| Capital Expenditure | | | | | | | |
| Transfers recognised: Capital | 23 632 750 | -962 760 | 24 595 510 | 27 731 129 | -3 135 619 | -13% | |
| Public contribution, donations and grants | - | - | - | - | - | | |
| Borrowings | - | - | - | - | - | | |
| Internally generated funds | - | - | - | - | - | | |
| Total Sources of capital fund | 23 632 750 | -962 760 | 24 595 510 | 27 731 129 | -3 135 619 | -13% | |