



Dannhauser Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2019

# Dannhauser Local Municipality

(Registration number KZ254)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>Legal form of entity</b>	Category B municipality in terms of section 3 of the Local Government Municipal Structures Act, 1998 (Act 117 of 1998) read with section 155 of the Constitution of the Republic of South Africa, 1996.
<b>Municipal demarcation code</b>	KZN 254
<b>Grading of local Municipality</b>	Grade 2
<b>Capacity of local authority</b>	Low Capacity Municipality
<b>Nature of business and principal activities</b>	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development, levying of rates and supplying of general services to the community. The municipality is also involved in demarcation and grading of land.
<b>Mayor</b>	Cllr Phakathi J.P.
<b>Speaker</b>	Cllr Ngubeni Z.S.
<b>Councillors</b>	Cllr Buthelezi M.A. Cllr Dlamini S.D. Cllr Dubazana X.M. Cllr Dube N.S. Cllr Nair P.G. Cllr Hlathswayo N.S. Cllr Hlathswayo V.R. Cllr Kumalo N.P. Cllr Kunene M. Cllr Manyati N.G.R. Cllr Matlaba M.N. Cllr Mazibuko R.N. Cllr Mfusi E.S. Cllr Mkhize M.S. Cllr Mkhumane M.S. Cllr Msibi S.D. Cllr Ndaba V.M. Cllr Ndlovu S.N. Cllr Nene P.P. Cllr Ngidi M.A. Cllr Radebe A.N. Cllr Sibisi S.S. Cllr Sithole S.G.
<b>Accounting Officer</b>	Mr. WB Nkosi
<b>Chief Finance Officer (CFO)</b>	Mrs Mohapi D.M.
<b>Registered office</b>	8 Church Street Dannhauser 3080
<b>Business address</b>	8 Church Street Dannhauser

# Dannhauser Local Municipality

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## General Information

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	3080
<b>Postal address</b>	Private Bag X1011 Dannhauser 3080
<b>Auditors</b>	Auditor General
<b>Attorneys</b>	Rafiq Khan & Co. Attorneys at Law

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

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MIG	Municipal Infrastructure Grant (Previously CMIP)

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## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 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.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in note 27 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the 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.

The annual financial statements set out on pages 5 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed by:

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**Mr. WB Nkosi**  
**Accounting Officer**

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting officer's Report

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The accounting officer submits his report for the year ended 30 June 2019.

### 1. Review of activities

#### Main business and operations

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development, levying of rates and supplying of general services to the community.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

### 2. Going concern

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

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Standards Board.

### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name  
Mr. WB Nkosi

### 6. Auditors

Auditor General of South Africa will continue in office for the next financial period.

# Dannhauser Local Municipality

(Registration number KZ254)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	8	1,824,463	2,158,008
VAT receivable	9	1,351,098	3,240,761
Receivables from non-exchange transactions	10	22,322,027	21,561,819
Cash and cash equivalents	11	20,553,029	53,086,038
		<b>46,050,617</b>	<b>80,046,626</b>
<b>Non-Current Assets</b>			
Biological assets that form part of an agricultural activity	3	-	70,000
Investment property	4	8,768,000	7,015,079
Property, plant and equipment	5	457,282,516	455,893,756
Heritage assets	6	97,185	55,576
		<b>466,147,701</b>	<b>463,034,411</b>
<b>Total Assets</b>		<b>512,198,318</b>	<b>543,081,037</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	1	7,700
Unspent conditional grants and receipts	13	217,781	197,251
Other financial liabilities	14	1,585,736	958,173
Employee benefit obligation	7	211,109	290,481
Provisions	15	16,341,878	9,948,766
Payables from exchange transactions	16	19,180,988	10,984,765
		<b>37,537,493</b>	<b>22,387,136</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	14	11,893,022	8,119,124
Employee benefit obligation	7	6,556,262	4,692,583
		<b>18,449,284</b>	<b>12,811,707</b>
<b>Total Liabilities</b>		<b>55,986,777</b>	<b>35,198,843</b>
<b>Net Assets</b>		<b>456,211,541</b>	<b>507,882,194</b>
Accumulated surplus		456,211,541	507,882,194

\* See Note 40 & 39

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## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	1,034,870	996,714
Rental of facilities and equipment	19	111,662	94,422
Licences and permits	21	3,000,118	2,192,411
Other income	22	2,480,510	3,762,534
Interest received - investment	23	3,144,619	4,248,771
<b>Total revenue from exchange transactions</b>		<b>9,771,779</b>	<b>11,294,852</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	19,099,542	14,853,721
<b>Transfer revenue</b>			
Government grants & subsidies	25	107,707,470	104,983,218
Fines, Penalties and Forfeits	20	1,577,538	117,665
<b>Total revenue from non-exchange transactions</b>		<b>128,384,550</b>	<b>119,954,604</b>
<b>Total revenue</b>	17	<b>138,156,329</b>	<b>131,249,456</b>
<b>Expenditure</b>			
Employee related costs	26	(29,651,600)	(28,480,732)
Remuneration of councillors	27	(9,044,404)	(8,860,902)
Depreciation and amortisation	28	(34,598,225)	(39,009,221)
Finance Costs	30	(1,591,054)	(475,325)
Contracted services	31	(42,117,457)	(19,057,652)
General Expenses	32	(40,968,520)	(36,457,260)
<b>Total expenditure</b>		<b>(157,971,260)</b>	<b>(132,341,092)</b>
<b>Operating deficit</b>		<b>(19,814,931)</b>	<b>(1,091,636)</b>
Loss on disposal of assets and liabilities		(3,098,796)	(1,555)
Fair value adjustments		1,752,921	-
Impairment loss	29	(25,063,826)	(4,156,807)
		<b>(26,409,701)</b>	<b>(4,158,362)</b>
<b>Deficit for the year</b>		<b>(46,224,632)</b>	<b>(5,249,998)</b>

\* See Note 40 & 39



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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	374,346,926	374,346,926
Adjustments		
Prior year adjustments	138,785,266	138,785,266
<b>Balance at 01 July 2017</b>	<b>513,132,192</b>	<b>513,132,192</b>
Changes in net assets		
Surplus for the year	(5,249,998)	(5,249,998)
Total changes	(5,249,998)	(5,249,998)
<b>Balance at 01 July 2018</b>	<b>502,436,173</b>	<b>502,436,173</b>
Changes in net assets		
Surplus for the year	(46,224,632)	(46,224,632)
Total changes	(46,224,632)	(46,224,632)
<b>Balance at 30 June 2019</b>	<b>456,211,541</b>	<b>456,211,541</b>

\* See Note 40 & 39

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## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges		20,134,412	15,850,435
Government grants and subsidies		107,707,470	104,983,218
Interest income		3,144,619	4,248,771
Other cash item		7,169,828	6,167,032
		<u>138,156,329</u>	<u>131,249,456</u>
<b>Payments</b>			
Employee costs		(39,014,598)	(37,048,997)
Suppliers		(65,735,461)	(62,196,939)
Repairs and maintenance		(1,591,054)	(475,325)
		<u>(106,341,113)</u>	<u>(99,721,261)</u>
<b>Net cash flows from operating activities</b>	34	<b><u>31,815,216</u></b>	<b><u>31,528,195</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(68,949,572)	(35,597,644)
Proceeds from sale of property, plant and equipment	5	137,585	23,766
Purchase of biological assets that form part of an agricultural activity	3	-	(70,000)
Proceeds from sale of biological assets that form part of an agricultural activity	3	70,000	-
<b>Net cash flows from investing activities</b>		<b><u>(68,741,987)</u></b>	<b><u>(35,643,878)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from other financial liabilities		4,401,461	9,310,929
Finance lease payments		(7,699)	-
<b>Net cash flows from financing activities</b>		<b><u>4,393,762</u></b>	<b><u>9,310,929</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(32,533,009)</u></b>	<b><u>5,195,246</u></b>
Cash and cash equivalents at the beginning of the year		53,086,038	47,890,792
<b>Cash and cash equivalents at the end of the year</b>	11	<b><u>20,553,029</u></b>	<b><u>53,086,038</u></b>

\* See Note 40 & 39

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1,170,944	(1,170,944)	-	1,034,870	<b>1,034,870</b>	47.1
Rental of facilities and equipment	234,625	(147,237)	<b>87,388</b>	111,662	<b>24,274</b>	47.2
Licences and permits	4,464,307	(925,805)	<b>3,538,502</b>	3,000,118	<b>(538,384)</b>	47.3
Other income - (rollup)	1,818,135	191,257	<b>2,009,392</b>	2,480,510	<b>471,118</b>	47.4
Interest received - investment	5,175,456	(1,984,868)	<b>3,190,588</b>	3,144,619	<b>(45,969)</b>	
<b>Total revenue from exchange transactions</b>	<b>12,863,467</b>	<b>(4,037,597)</b>	<b>8,825,870</b>	<b>9,771,779</b>	<b>945,909</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	17,976,947	-	<b>17,976,947</b>	19,099,542	<b>1,122,595</b>	47.5
<b>Transfer revenue</b>						
Government grants & subsidies	107,707,470	-	<b>107,707,470</b>	107,707,470	-	
Fines, Penalties and Forfeits	400,751	(199,706)	<b>201,045</b>	1,577,538	<b>1,376,493</b>	
<b>Total revenue from non-exchange transactions</b>	<b>126,085,168</b>	<b>(199,706)</b>	<b>125,885,462</b>	<b>128,384,550</b>	<b>2,499,088</b>	
<b>Total revenue</b>	<b>138,948,635</b>	<b>(4,237,303)</b>	<b>134,711,332</b>	<b>138,156,329</b>	<b>3,444,997</b>	
<b>Expenditure</b>						
Personnel	(38,421,561)	7,687,662	<b>(30,733,899)</b>	(29,651,600)	<b>1,082,299</b>	47.6
Remuneration of councillors	(9,332,278)	-	<b>(9,332,278)</b>	(9,044,404)	<b>287,874</b>	
Depreciation and amortisation	(22,000,000)	2,500,000	<b>(19,500,000)</b>	(34,598,225)	<b>(15,098,225)</b>	47.7
Impairment loss/ Reversal of impairments	-	-	-	(25,063,826)	<b>(25,063,826)</b>	
Repairs and maintenance	(8,125,749)	-	<b>(8,125,749)</b>	(1,591,054)	<b>6,534,695</b>	47.8
Contracted Services	-	-	-	(42,117,457)	<b>(42,117,457)</b>	
General Expenses	(59,634,930)	2,069,297	<b>(57,565,633)</b>	(40,968,520)	<b>16,597,113</b>	47.9
<b>Total expenditure</b>	<b>(137,514,518)</b>	<b>12,256,959</b>	<b>(125,257,559)</b>	<b>(183,035,086)</b>	<b>(57,777,527)</b>	
<b>Operating deficit</b>	<b>1,434,117</b>	<b>8,019,656</b>	<b>9,453,773</b>	<b>(44,878,757)</b>	<b>(54,332,530)</b>	
Loss on disposal of assets and liabilities	-	-	-	(3,098,796)	<b>(3,098,796)</b>	
Fair value adjustments	-	-	-	1,752,921	<b>1,752,921</b>	
	-	-	-	<b>(1,345,875)</b>	<b>(1,345,875)</b>	
<b>Deficit before taxation</b>	<b>1,434,117</b>	<b>8,019,656</b>	<b>9,453,773</b>	<b>(46,224,632)</b>	<b>(55,678,405)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>1,434,117</b>	<b>8,019,656</b>	<b>9,453,773</b>	<b>(46,224,632)</b>	<b>(55,678,405)</b>	

# Dannhauser Local Municipality

(Registration number KZ254)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003). The accounting framework as prescribed is determined in Directive 5 issued by the Accounting Standards Board.

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and the amounts have been rounded to the nearest rand.

#### 1.2 Going concern assumption

These annual financial statements have been prepared on a going concern basis, i.e. the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

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

The preparation of these annual financial statements in conformity with GRAP, requires the use of certain critical accounting estimates. Management is required to exercise judgement which affects amounts represented in the annual financial statements, related disclosures, the use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes to the financial statements, where applicable. Significant judgements include:

#### Receivables

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

The impairment for receivables is calculated on a portfolio basis, 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 balances in the portfolio and scaled to the estimated loss emergence period.

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## Accounting Policies

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

#### Impairment testing

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

#### Value in use of cash generating assets:

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

#### Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

#### Provisions

Management determines an estimate based on the available information and additional disclosure of these estimates are included in note 15 Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. These estimates are based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

#### Post employment benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 7.

#### Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

#### Allowance for impairment

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

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## Accounting Policies

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### 1.4 Biological assets that form part of an agricultural activity

The municipality recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

Item	Useful life
Bulls	10 years

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost including any transaction costs incurred.

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

Costs include costs incurred initially and costs incurred subsequently e.g. addition, replacement of a part, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such a difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.6 Property, plant and equipment

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

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

The Data Dictionary contained in the Asset Management Policy contains the details of the components and their specific useful life estimates.

The depreciation rates are based on the following estimated useful lives:

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Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 - 50 years
Plant and machinery	Straight line	4 - 12 years
Furniture and fixtures	Straight line	9 years
Motor vehicles	Straight line	9 years
Infrastructure work in progress	Straight line	3 - 5 years
IT equipment	Straight line	7 years
Infrastructure	Straight line	50 years
Landfill site	Straight line	15 years
Other vehicles	Straight line	9 years
Specialised vehicles	Straight line	10 years

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

The residual value, depreciation method and useful life, if not significant are reassessed annually on an indicator basis with the effect of any changes in estimate accounted for on a prospective basis.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

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

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

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.

### 1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.8 Heritage assets

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



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### 1.8 Heritage assets (continued)

#### Recognition

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

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 6 Heritage assets.

#### Initial measurement

Heritage assets are initially recognised at cost.

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

#### Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses.

#### Impairment

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

#### Transfers

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

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

#### Derecognition

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

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

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### 1.9 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:

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

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

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

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

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

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

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

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### 1.9 Financial instruments (continued)

#### Classification

The municipality 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:

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The municipality 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:

<b>Class</b>	<b>Category</b>
Payables from exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

The municipality measures all financial assets and financial liabilities after initial recognition using the 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 in the case of a financial asset.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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 municipality 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 municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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### 1.9 Financial instruments (continued)

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 an 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 the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial 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.

Financial assets measured at cost:

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

### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is 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. The 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.

#### Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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### 1.9 Financial instruments (continued)

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).

### 1.10 Value-added Tax (VAT)

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

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

### Identification

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

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

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

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

#### Value in use

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

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

#### Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality 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 non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

#### 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.

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

#### Reversal of an impairment loss

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

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

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

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.

### 1.13 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables for the Municipality constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:
  - the definition of an asset is met; and
  - it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

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

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

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.



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### 1.13 Statutory receivables (continued)

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 statutory receivable 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 statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables 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.

The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable 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 municipality:
  - derecognises the receivable;
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is 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 considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

### 1.14 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 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 12 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 12 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 municipality during a reporting period, the municipality 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 municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

# Dannhauser Local Municipality

(Registration number KZ254)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# Dannhauser Local Municipality

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### 1.14 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Dannhauser Local Municipality

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## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Termination benefits

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

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

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

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

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money.

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

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating expenditure.

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

# Dannhauser Local Municipality

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## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:

- 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.

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 municipality

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 incurred in the current financial year in respect to levelling and this had been adjusted for inflation. The amount provided is the best estimate calculated.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

#### Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

### 1.16 Revenue from exchange transactions

Exchange transactions are transactions which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. Revenue is recognised net of indirect taxes, rebates and trade discounts, and consists primarily of service charges, rental, licences and permits, interest and other income

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, revenue is shown net of value added tax, returns rebates and discounts for the supply of services in the ordinary course of activities.

#### Sale of goods

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

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

#### Rendering of services

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

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

When 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.

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Interest

Revenue arising from the use by others of municipal assets yielding interest or similar distributions is recognised when:

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

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

#### Service charges

Service charges relating to electricity, water and sanitation are based on consumption. Waste removal is based on the size of the bin and the number of times it is collected. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumption are made monthly when meter readings have not been performed. The estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. Waste removal services are billed on a monthly basis.

#### Services provided on a prepaid basis

Various services are provided on a prepaid basis in which case no formal billing takes place and revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

#### Income from agency services

Income from agency services is recognised on a monthly basis, limited to the agency fees, once the income collected on behalf of the agents has been quantified. The income recognised is in terms of an agency agreement. Amounts collected on behalf of the principal are accounted for as liability in the statement of financial position.

#### Housing rental and instalments

Income in respect of housing rental and instalments are accrued monthly in advance. Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time-proportionate basis.

#### Collection charges

Collection charges are recognised when such amounts are incurred/earned.

### 1.17 Revenue from non-exchange transactions

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises and that ratepayers have been duly notified. Interest unpaid rates is recognised on a time-proportionate basis with reference to the principal amount receivable and effective rate applicable.

Fines constitute both spot fines and summons. The revenue is recognised when the fine is issued.

Government grants and subsidies are recognised in terms of the amount that has been received.



# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.18 Borrowing costs

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

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

### 1.19 Comparative figures

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

### 1.20 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

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.

### 1.21 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.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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.

# Dannhauser Local Municipality

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## Accounting Policies

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### 1.23 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

### 1.24 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 36.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded. Commitment represents goods/ services that have been approved and / or contracted for, but where delivery has taken place at the reporting date. Commitments will consist of already contracted for but not provided for and not yet contracted for and authorised by accounting officer

### 1.25 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.26 Budget information

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

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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

A 10% deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 5%. The percentage is based on management estimate and is considered to be appropriate. All material differences are explained in note 47 of the financial statements

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.27 Related parties

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

Management is regarded as a related party and comprises of the Executive Mayor, Councillors, Mayoral Executive Members, Municipal Manager and executive directors.

### 1.28 Events after reporting date

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

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

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

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

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 12 (as amended 2016): Inventories	01 April 2018	The impact of the Standard is not material.
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	The impact of the Standard is not material.
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the Standard is not material.
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the Standard is not material.
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the Standard is not material.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 104 (amended): Financial Instruments	No effective date	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	No effective date	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

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### 3. Biological assets that form part of an agricultural activity

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Bulls	-	-	-	70,000	-	70,000

#### Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Disposals	Total
Bulls	70,000	(70,000)	-

#### Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Additions	Total
Bulls	-	70,000	70,000

### 4. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	8,768,000	-	8,768,000	7,015,079	-	7,015,079

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property - Land and buildings	7,015,079	1,752,921	8,768,000

#### Reconciliation of investment property - 2018

	Opening balance	Prior period errors	Fair value adjustments	Total
Investment property - Land and buildings	19,430,511	(13,898,576)	1,483,144	7,015,079

#### Pledged as security

None of the above investment property have been pledged as security.

#### Other Disclosures

- Rental revenue from investment property	111,662	94,422
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The last valuation was done on 31 January 2013, valuer is Umhlaba Geomatics Inc. Professional Valuer No. 5375.

# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

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### 5. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	45,619,950	-	45,619,950	45,619,950	-	45,619,950
Buildings	241,381,377	(90,158,094)	151,223,283	241,381,376	(72,907,706)	168,473,670
Plant and machinery	3,455,169	(1,817,166)	1,638,003	3,126,689	(1,304,407)	1,822,282
Furniture and fixtures	3,766,992	(2,156,676)	1,610,316	3,044,249	(1,787,924)	1,256,325
Motor vehicles	19,527,037	(11,841,311)	7,685,726	16,829,790	(9,692,457)	7,137,333
Infrastructure work in progress	76,607,331	-	76,607,331	46,979,318	-	46,979,318
IT equipment	2,610,691	(1,317,311)	1,293,380	1,920,639	(951,324)	969,315
Infrastructure	448,653,714	(277,049,187)	171,604,527	429,851,129	(246,215,566)	183,635,563
<b>Total</b>	<b>841,622,261</b>	<b>(384,339,745)</b>	<b>457,282,516</b>	<b>788,753,140</b>	<b>(332,859,384)</b>	<b>455,893,756</b>

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	45,619,950	-	-	-	-	-	-	-	-	45,619,950
Buildings	168,473,670	-	-	-	-	-	(5,071,577)	(12,178,810)	-	151,223,283
Plant and machinery	1,822,282	328,480	-	-	-	-	(376,244)	(136,515)	-	1,638,003
Furniture and fixtures	1,256,325	729,543	(4,276)	-	-	-	(341,191)	(30,085)	-	1,610,316
Motor vehicles	7,137,333	2,697,247	-	-	-	-	(1,984,533)	(164,321)	-	7,685,726
Infrastructure work in progress	46,979,318	62,459,995	-	(20,460,644)	-	(12,371,338)	-	-	-	76,607,331
IT equipment	969,315	690,052	-	-	-	-	(340,958)	(25,029)	-	1,293,380
Infrastructure	183,635,563	-	(3,232,105)	20,460,644	8,927,957	-	(26,483,722)	(11,738,301)	34,491	171,604,527
	<b>455,893,756</b>	<b>66,905,317</b>	<b>(3,236,381)</b>	<b>-</b>	<b>8,927,957</b>	<b>(12,371,338)</b>	<b>(34,598,225)</b>	<b>(24,273,061)</b>	<b>34,491</b>	<b>457,282,516</b>

## Dannhauser Local Municipality

(Registration number KZ254)

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

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

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

	Opening balance	Additions	Disposals	Transfers	Prior period errors	Depreciation	Impairment loss	Total
Land	1,555,447	-	-	(416,497)	44,481,000	-	-	45,619,950
Buildings	139,654,641	-	-	-	35,378,425	(5,071,577)	(1,487,819)	168,473,670
Plant and machinery	1,716,115	212,565	(23,766)	-	-	(82,632)	-	1,822,282
Furniture and fixtures	1,050,895	99,061	-	-	-	106,369	-	1,256,325
Motor vehicles	7,113,792	1,868,865	-	-	-	(1,845,324)	-	7,137,333
IT equipment	672,738	-	-	-	-	296,577	-	969,315
Infrastructure	144,334,711	-	-	416,497	71,360,398	(32,424,950)	(51,093)	183,635,563
Infrastructure work in progress	12,553,127	33,191,128	-	-	1,235,063	-	-	46,979,318
	<b>308,651,466</b>	<b>35,371,619</b>	<b>(23,766)</b>	<b>-</b>	<b>152,454,886</b>	<b>(39,021,537)</b>	<b>(1,538,912)</b>	<b>455,893,756</b>

##### Pledged as security

None of the above property, plant and equipment have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

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### 6. Heritage assets

	2019			2018		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral chain	97,185	-	97,185	55,576	-	55,576

#### Reconciliation of heritage assets 2019

	Opening balance	Fair value adjustments	Total
Mayoral chain	55,576	41,609	97,185

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral chain	55,576	55,576

#### Age and/or condition of heritage assets

The heritage assets were assessed for impairment in the current year and no impairment was considered necessary.

#### Pledged as security

Heritage assets are not pledged as security.



# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>7. Employee benefit obligations</b>		
<b>Defined benefit plan</b>		
<b>Post retirement medical aid plan</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(3,515,008)	(3,672,812)
Fair value of reimbursement rights	-	157,804
	<b>(3,515,008)</b>	<b>(3,515,008)</b>
Non-current liabilities	(6,556,262)	(4,692,583)
Current liabilities	(211,109)	(290,481)
	<b>(6,767,371)</b>	<b>(4,983,064)</b>

The Council and its employees contribute to the Natal Joint Municipal Pension Fund's which constitute three funds providing 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. 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.

### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,682,812	3,044,000
Service cost	157,804	170,601
Finance cost	338,923	337,127
Benefits paid	(181,535)	(168,622)
Actuarial loss/gain	1,047,669	(307,001)
Other	(403,565)	606,707
	<b>4,642,108</b>	<b>3,682,812</b>

### Long service awards

Opening balance	1,300,805	873,000
Current service	106,532	99,082
Actuarial gains (losses)	62,310	171,495
Interest cost	620,022	81,770
Expected benefit vesting	(108,946)	(47,487)
Service cost	144,540	122,945
	<b>2,125,263</b>	<b>1,300,805</b>

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 30 June 2019 by Independent Actuarial Arch Actuarial Consulting CC, Fellow of the Actuarial Society of South Africa. A long service award is payable after 10 years of continuous service and every 5 years thereafter to employees. Furthermore a retirement gift is payable on retirement to employees with service of 10 years or more. The provision is an estimate of the long service awards based on historical staff turnover, taking into account management's estimate of the likelihood that staff may leave before long service awards become due. No other long service benefits are provided to employees.

# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>7. Employee benefit obligations (continued)</b>		
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rates used Long Service award	8.54 %	8.20 %
General Earnings inflation Rate (Long Term)	6.14 %	5.51 %
Net Discount Rate	2.26 %	2.47 %
Discount rates used Medical Aid	9.43 %	8.95 %
Health Care Costs inflation rate	7.26 %	6.89 %
	- %	- %
	0.79 %	0.79 %
<b>8. Receivables from exchange transactions</b>		
Other receivables	763,644	1,294,551
Sundry debtors	974,722	777,360
Prepaid expenses	86,097	86,097
	<b>1,824,463</b>	<b>2,158,008</b>
<b>Trade and other receivables past due but not impaired</b>		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	-	870,108
2 months past due	-	687,000
3 months past due	-	637,000
<b>9. VAT receivable</b>		
Value Added Tax	1,351,098	3,240,761
VAT is accounted for on the payments basis.		
All VAT returns were submitted throughout the year.		
<b>10. Receivables from non exchange and exchange transactions</b>		
<b>Gross balances</b>		
Rates and refuse removal	34,565,854	27,845,306
<b>Less: Allowance for impairment</b>		
Rates and refuse removal	(12,243,827)	(6,283,487)
<b>Net balance</b>		
Rates	22,322,027	21,561,819
<b>Rates</b>		
Current (0 -30 days)	1,070,308	916,324
31 - 60 days	907,205	769,793
61 - 90 days	781,068	711,220
91 - 120 days	768,199	699,691
121 - 365 days	770,005	4,177,478
> 365 days	26,657,927	20,570,800
	<b>30,954,712</b>	<b>27,845,306</b>

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 10. Receivables from non exchange and exchange transactions (continued)

#### Summary of receivables by customer classification

##### Consumers

Current (0 -30 days)	352,977	672,112
31 - 60 days	333,394	525,416
61 - 90 days	294,502	486,351
91 - 120 days	292,025	473,788
121 - 365 days	2,003,900	2,691,347
> 365 days	14,292,951	17,639,230
	<u>17,569,749</u>	<u>22,488,244</u>
Less: Allowance for impairment	(12,243,827)	(6,283,486)
	<b>5,325,922</b>	<b>16,204,758</b>

##### National and provincial government

Current (0 -30 days)	308,833	244,211
31 - 60 days	295,623	244,377
61 - 90 days	294,426	224,869
91 - 120 days	297,342	225,902
121 - 365 days	1,630,327	1,486,132
> 365 days	5,411,140	2,931,570
	<u>8,237,691</u>	<u>5,357,061</u>
Less: Allowance for impairment	-	-
	<b>8,237,691</b>	<b>5,357,061</b>

##### Total

Current (0 -30 days)	1,070,308	916,323
31 - 60 days	907,205	769,793
61 - 90 days	781,068	711,220
91 - 120 days	768,199	699,690
121 - 365 days	4,729,771	4,177,479
> 365 days	26,657,927	20,570,800
	<u>34,914,478</u>	<u>27,845,305</u>
Less: Allowance for impairment	(12,243,827)	(6,283,486)
	<b>22,670,651</b>	<b>21,561,819</b>

##### Reconciliation of allowance for impairment

Balance at beginning of the year	6,283,486	3,665,681
Contributions to allowance	5,960,341	2,617,805
	<u>12,243,827</u>	<u>6,283,486</u>

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>11. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	3,900	2,385
Bank balances	10,319,132	10,848,428
Short-term deposits	10,229,997	42,235,225
	<b>20,553,029</b>	<b>53,086,038</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
FNB - Primary Bank Account - 62369194106	3,987,558	7,717,898	3,446,725	3,987,558	7,692,367	3,446,725
Standard Bank - Primary Bank Account - 060032073	266,453	3,130,534	288,527	266,453	3,131,691	288,527
FNB - Call Account - 62392884659	374,964	354,799	336,122	374,964	354,799	336,122
Standard Bank - Notice Deposit - 068483295002	1,184,699	1,110,937	1,032,927	1,184,699	1,110,937	1,032,927
Standard Bank - Call Account - 068480520001	608,231	5,143,611	5,297,904	608,231	6,143,611	5,297,904
FNB Bank - Call Account - 62084062894	242,522	5,989,209	4,143,905	242,522	5,989,209	4,143,905
ABSA BANK - Map Call Account - 9118486422	-	19,715	18,454	-	19,715	18,455
ABSA BANK - 9121421831 - Call Account	-	664,294	32,375	-	664,294	32,309
ABSA BANK - Call Account 9169857999	-	3,018,189	2,838,880	-	3,018,189	2,838,880
STANDARD BANK - Equitable Share -068480520 - 002	56,001	52,923	49,998	56,001	52,923	49,998
ABSA BANK - Housing Call Account - 9259916188	517,505	487,294	458,344	517,505	487,294	458,344
ABSA BANK - Fixed Deposit Account (MPRA) - 2072034421	3,500,396	3,277,624	3,063,645	3,500,396	3,277,624	3,063,645
FNB Bank -Municipal Infrastructure Grant - 62392885855	1,917	1,820	233,348	1,917	1,820	233,348
FNB - Call Account - (Electrification ) 62422725682	833,710	788,718	745,915	833,710	788,718	745,915
NEDBANK - Call Account (MIG) - 7165020829	13,675	12,823	11,949	13,675	12,823	11,949
INVESTEC - FIXED DEPOSITS - 1100532894-450	-	5,903,136	5,488,072	-	5,903,136	5,488,072
INVESTEC - Call Account - Equitableshare - 1100532894-451	-	904,072	5,491,674	-	904,072	5,491,674
STANDARD BANK - Call account - 268436894001	1,422,495	1,333,927	1,253,927	1,422,495	1,333,927	1,253,927
Nedbank - Call Account - 7165022015	970,367	909,906	852,799	970,367	909,906	852,799
Nedbank - Call Account (MSIG & FMG) -7165022740	-	1,676,565	6,129,356	-	1,676,565	6,122,941
Investec: 1100-532894453 Equitable share (Fixed deposit)	-	240,270	3,133,205	-	240,270	3,133,205
Investec: 1100-532894500 Equitable Share (Call Account)	541,980	70,690	1,047,865	541,980	70,690	1,047,865

# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand					2019	2018
<b>11. Cash and cash equivalents (continued)</b>						
ABSA 2074015596 (Fixed Deposit)	2,856,955	2,675,132	2,500,488	2,856,955	2,675,132	2,500,488
Ithala bank call account(acc 79464823)	-	5,308,814	-	-	5,308,814	-
investec fixed dep account(1100-532894-454)	-	2,290,756	-	-	2,290,756	-
Nedbank Fixed Deposit account(7881147458-001)	3,000,000	-	-	3,000,000	-	-
Standard Bank call account (068480520-004)	68,016	-	-	68,016	-	-
Nedbank call account (7881147458)	105,585	-	-	105,585	-	-
<b>Total</b>	<b>20,553,029</b>	<b>53,083,656</b>	<b>47,896,404</b>	<b>20,553,029</b>	<b>54,059,282</b>	<b>47,889,924</b>

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	-	7,700
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The above lease was for councillors' tablets with Telkom. The lease was for a period of two years and was concluded in the current year.

### 13. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Small Town	197,251	197,251
Sports and recreation	20,530	-
	<b>217,781</b>	<b>197,251</b>

#### Movement during the year

Balance at the beginning of the year	197,251	197,251
Additions during the year	20,530	-
	<b>217,781</b>	<b>197,251</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. All grants that do not have movements are roll over grants.

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 14. Other financial liabilities

#### Long term liability

DBSA Loan 13,478,758 9,077,297

The above is funding capital project for the period of ten years and paid quarterly at the fixed interest rate of 10.685%.

The municipality has entered into a new finance lease agreement with DBSA during the 2017/2018 financial year. The above loan is funding capital project for the period of ten years and paid quarterly at the fixed interest rate of 10.685%. The municipality expenses borrowing costs incurred on qualifying assets only when the commencement date for capitalisation is on or after the effective date of GRAP 5 for any assets acquired after the initial adoption of this Standard. Borrowing costs incurred prior to the effective date of GRAP 5. No withdrawals may be made from the Debt Service Reserve Account by the Cedent, except only in respect of making debt service payments due to the Cessionary, as and when such payments become due and payable as per provisions of the Loan Agreement.

#### Non-current liabilities

DBSA Loan 11,893,022 8,119,124

#### Current liabilities

DBSA Loan 1,585,736 958,173

### 15. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Landfill sites	9,948,766	6,393,112	16,341,878

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Landfill sites	9,670,336	278,430	9,948,766

#### Provision for rehabilitation:

The Municipality engages in disposal of general waste, garden waste and garden rubble from the residents and businesses in Dannhauser and surrounding areas.

A new Waste Management Licence for operation of Dannhauser waste disposal facility was issued in terms of Section 49(1) of the National Environmental Management: Waste Act 29 of 2008. The Waste Management Licence (WML) was issued to Dannhauser Local Municipality in February 2014 for continued operation of the landfill site at the above subject to the conditions stated in section 5 of the licence.

The amount of rehabilitation is dependent on future cost technology, inflation and site consumption. The discount rate for the provision is 10,25% (2018: 10.25%)

The following is proposed for the rehabilitation of the landfill:

- Upgrade and maintain existing
- Rehabilitation and closure costs
- Post-closure monitoring and maintenance costs (aftercare)

The amount provided is the best estimate calculated. The financial implications of rehabilitating the landfill site were determined by an independent valuator Hill and associates Civil Engineers as at 30 June 2019.

# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>16. Payables from exchange transactions</b>		
Trade payables	2,694,495	1,171,861
Performance bonus	-	144,000
Accrued leave pay	2,224,114	2,023,946
Retentions on contracts with customers	5,353,889	1,235,063
Trade accruals	8,873,124	6,393,347
Prodiba	35,366	16,548
	<b>19,180,988</b>	<b>10,984,765</b>
<b>17. Revenue</b>		
Fines	1,577,538	117,665
Government grants and subsidies	107,707,470	104,983,218
Interest received - investment	3,144,619	4,248,771
Licences and permits	3,000,118	2,192,411
Other income	2,480,510	3,762,534
Property rates	19,099,542	14,853,721
Rental income	111,662	94,422
Service charges	1,034,870	996,714
	<b>138,156,329</b>	<b>131,249,456</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Interest received	3,144,619	4,248,771
Licences and permits	3,000,118	2,192,411
Other income	2,480,510	3,762,534
Rental of facilities and equipment	111,662	94,422
Service charges	1,034,870	996,714
	<b>9,771,779</b>	<b>11,294,852</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	19,099,542	14,853,721
<b>Transfer revenue</b>		
Fines	1,577,538	117,665
Government grants and subsidies	107,707,470	104,983,218
	<b>128,384,550</b>	<b>119,954,604</b>
<b>18. Service charges</b>		
Service charges	1,034,870	996,714
<b>19. Rental income</b>		
<b>Premises</b>		
Rental of investment properties	111,662	94,422

# Dannhauser Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>20. Fines, Penalties and Forfeits</b>		
Traffic fines	1,503,000	81,178
Library fines	37,958	31,087
Pound fees	36,580	5,400
	<b>1,577,538</b>	<b>117,665</b>
<b>21. Licences and permits</b>		
<b>Municipal licences and permits</b>		
Drivers licences	296,290	258,000
Learners licences	190,513	216,170
Drivers licences card	2,513,315	1,718,241
	<b>3,000,118</b>	<b>2,192,411</b>
<b>22. Other income</b>		
Cemetery fees	11,137	10,071
Insurance claims	-	1,645
Donation	-	1,940,200
Local Government Sector Education and Training Authority (LGSETA)	78,750	43,086
Rates clearing certificates	14,305	7,017
Taxi rank fees	-	7,194
Sundry Income	2,374,637	1,651,469
Prodiba	-	(21,123)
Tittle Deeds	-	120,000
Valuation Certificates	1,681	2,975
	<b>2,480,510</b>	<b>3,762,534</b>
<b>23. Investment revenue</b>		
<b>Interest revenue</b>		
Interest received	3,144,619	4,248,771
<b>24. Property rates</b>		
<b>Rates received</b>		
Assessment rates	19,099,542	14,853,721
<b>Valuations</b>		
Commercial	804,641,000	804,641,000
Residential	583,955,000	583,955,000
State	215,696,000	215,696,000
	<b>1,604,292,000</b>	<b>1,604,292,000</b>



# Dannhauser Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Government grants and subsidies</b>		
Cyber Cadet Grant	203,500	188,000
Equitable share	82,343,000	78,831,000
Expanded Public Works Program (EPWP)	1,000,000	1,000,000
Sports and recreation	29,470	-
Financial Management Grant (FMG)	1,900,000	1,900,000
Library provincialisation	831,500	582,999
Town Planning Grant	-	400,000
	<b>107,707,470</b>	<b>104,983,218</b>
Municipal Infrastructure Grant	21,400,000	22,081,219
	<b>21,400,000</b>	<b>22,081,219</b>
	<b>107,707,470</b>	<b>104,983,218</b>

### Equitable Share

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

### Sports and Recreation Grant

Current-year receipts	50,000	-
Conditions met - transferred to revenue	(29,470)	-
	<b>20,530</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

### Municipal Infrastructure Grant (MIG) Grant

Balance unspent at beginning of year	-	39
Current-year receipts	21,400,000	22,081,180
Conditions met - transferred to revenue	(21,400,000)	(22,081,219)
	<b>-</b>	<b>-</b>

The purpose of the municipal infrastructure grant is to provide basic residential infrastructure for poor households. The grant can be used for new infrastructure, upgrading bulk and connector infrastructure, or the rehabilitation of existing infrastructure.

### Financial Management Grant

Current-year receipts	1,900,001	1,900,000
Conditions met - transferred to revenue	(1,900,001)	(1,900,000)
	<b>-</b>	<b>-</b>

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The FMG Grant also pays for the cost of the Financial Management Internship Program (e.g. salary costs of the Financial Management Interns).

The balance of the grant whose condition(s) have not yet been met has been transferred to liabilities (see note 11 unspent conditional grants and receipts).

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

#### Library Provincialisation Grant

Current-year receipts	831,500	583,000
Conditions met - transferred to revenue	(831,500)	(583,000)
	<u>-</u>	<u>-</u>

The purpose of the community library services grant, administered by the Department of Co-operative governments and traditional affairs, is to help South Africans access knowledge and information, so that their socioeconomic situation can be improved. The grant is allocated to the relevant provincial department and either administered by that department or through a service-level agreement with municipalities.

#### Town Planning Grant

Balance unspent at beginning of year	197,251	197,251
Current-year receipts	-	400,000
Conditions met - transferred to revenue	-	(400,000)
	<u>197,251</u>	<u>197,251</u>

The purpose of the grant is to facilitate the rehabilitation of infrastructure in the small towns.

Conditions still to be met - remain liabilities (see note 13 unspent conditional grants and receipts).

#### Expanded Public Works Program (EPWP)

Balance unspent at beginning of year	-	451
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,451)
	<u>-</u>	<u>-</u>

The purpose of the grant is to incentivise municipalities to expand job creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Program (EPWP) guidelines: road maintenance and the maintenance of buildings; low traffic volume roads and rural roads; basic services infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure); other economic and social infrastructure.

#### Cyber Cadet

Current-year receipts	203,500	188,000
Conditions met - transferred to revenue	(203,500)	(188,000)
	<u>-</u>	<u>-</u>

The purpose of the Cyber Cadet grant, which is administered by the Department of Co-operative Governance and Traditional Affairs, is to assist in the cost of appointing the library computer assistant for the Dannhauser Community Library.

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### 26. Employee related costs

Employee related costs – salaries and wages	20,703,856	19,624,724
Housing benefits and allowances	423,008	221,481
Medical aid, Pension and UIF	3,448,403	3,456,408
Overtime payments	834,474	820,660
Bargaining and group life	12,219	29,247
Bonuses	1,037,958	1,731,661
Post-employment benefits	1,109,979	847,949
Skills Development Levy (SDL)	233,455	292,637
Other Allowances (Travelling, Cellphone)	1,848,248	1,455,965
	<b>29,651,600</b>	<b>28,480,732</b>

### Remuneration of Municipal Manager (Nkosi WB)

Annual Remuneration	642,459	546,845
Car Allowance	-	366,709
Bonus	218,372	-
Contributions to UIF, Medical and Pension Funds	54,388	83,173
	<b>915,219</b>	<b>996,727</b>

The municipal manager's estimated bonus of R218 372 is disclosed as contingent liability.

### Remuneration of Chief Finance Officer (Mohapi DM)

Annual Remuneration	602,528	566,198
Car Allowance	324,439	304,876
Bonus	50,486	47,183
Contributions to UIF, Medical and Pension Funds	211,956	214,686
Other	28,173	43,724
	<b>1,217,582</b>	<b>1,176,667</b>

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### 26. Employee related costs (continued)

#### Remuneration of Technical Service Director (Nene MR)

Annual Remuneration	464,172	431,530
Car Allowance	249,939	231,656
Bonus	38,893	35,497
Contributions to UIF, Medical and Pension Funds	106,345	103,008
Other	28,173	27,559
	<b>887,522</b>	<b>829,250</b>

#### Remuneration of Corporate Services Director (Narothum S)

Annual Remuneration	465,078	430,052
Car Allowance	249,032	223,989
Bonus	39,863	35,944
Contributions to UIF, Medical and Pension Funds	138,371	138,438
Other	18,000	19,279
	<b>910,344</b>	<b>847,702</b>

#### Remuneration of Community Services Director (Naidoo S)

Annual Remuneration	460,585	423,464
Car Allowance	248,007	228,019
Bonus	38,893	35,497
Contributions to UIF, Medical and Pension Funds	117,119	118,425
Other	28,173	27,559
	<b>892,777</b>	<b>832,964</b>

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Figures in Rand	2019	2018
<b>27. Remuneration of councillors</b>		
Mayor	870,557	840,312
Deputy Mayor	413,111	399,612
Speaker	705,327	692,319
Councillors	5,885,190	5,700,628
Executive Committee Members	1,170,219	1,228,031
	<b>9,044,404</b>	<b>8,860,902</b>

### June 2019

	Annual remuneration	Cellphone allowance	Data card allowance	Total
Cllr. Mayor: Phakathi JP	826,157	40,800	3,600	870,557
Cllr. Deputy Mayor: Msibi SD	368,711	40,800	3,600	413,111
Cllr. Speaker: Ngubeni ZS	660,927	40,800	3,600	705,327

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### 27. Remuneration of councillors (continued)

June 2019 Councillors	Annual remuneration	Cellphone allowance	Data card allowance	Total
Sect. 79 Chair Cllr Ndaba VM	335,524	40,800	3,600	379,924
Cllr Radebe AN	261,448	40,800	3,600	305,848
Cllr Manyathi NGJ	261,448	40,800	3,600	305,848
Cllr Buthelezi MA	261,448	40,800	3,600	305,848
Cllr Dubazana XM	261,448	40,800	3,600	305,848
Cllr Dube NS	261,448	40,800	3,600	305,848
Cllr Nair PG	261,448	40,800	3,600	305,848
Cllr Hlatshwayo NS	261,448	40,800	3,600	305,848
Cllr Hlatshwayo VR	261,448	40,800	3,600	305,848
Cllr Sibisi S S	261,448	40,800	3,600	305,848
Cllr Kumalo N.P	261,448	40,800	3,600	305,848
Cllr Kunene M	261,448	40,800	3,600	305,848
Cllr Ngidi MA	261,448	40,800	3,600	305,848
Cllr Matlaba MN	261,448	40,800	3,600	305,848
Cllr Mazibuko RN	261,448	40,800	3,600	305,848
Cllr Mfusi ES	261,448	40,800	3,600	305,848
Cllr Mkhize MS	261,448	40,800	3,600	305,848
Cllr Mkhumane MS	261,448	40,800	3,600	305,848
Cllr Sibisi SS	261,448	40,800	3,600	305,848
	<b>5,041,588</b>	<b>775,200</b>	<b>68,400</b>	<b>5,885,188</b>

June 2019 Executive Committee members	Annual remuneration	Cellphone allowance	Data card allowance	Total
Ndlovu SN	345,673	40,800	3,600	390,073
Nene PP	345,673	40,800	3,600	390,073
Sithole SG	345,673	40,800	3,600	390,073
	<b>1,037,019</b>	<b>122,400</b>	<b>10,800</b>	<b>1,170,219</b>

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

### 28. Depreciation and amortisation

Property, plant and equipment	34,598,225	39,009,221
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### 29. Impairment of assets

#### Impairments

Property, plant and equipment	24,238,570	1,538,912
Trade and other receivables	825,256	-
	<b>25,063,826</b>	<b>1,538,912</b>

### 30. Finance Charges

Finance Instruments at Amortised costs	1,591,054	475,325
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Finance costs relate to interest paid on the repayment of DBSA loan.

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Figures in Rand	2019	2018
<b>31. Contracted services</b>		
<b>Presented previously</b>		
Information Technology Services	2,349,715	113,140
Repairs and Maintenance	23,785,254	6,730,010
<b>Outsourced Services</b>		
Security Services	2,814,709	3,916,661
<b>Consultants and Professional Services</b>		
Business and Advisory	13,167,779	8,297,841
	<b>42,117,457</b>	<b>19,057,652</b>
<b>32. General expenses</b>		
Advertising	762,412	1,757,033
Auditors remuneration	2,879,975	3,166,962
Bank charges	125,520	88,365
Burial of destitute	219,878	178,923
Catering	1,014,897	562,193
Promote public participation	1,629,595	632,618
Cleaning material	312,405	144,766
Conferences and seminars	1,199,417	1,358,705
Disaster management	3,928,375	237,190
Electricity	2,741,759	3,113,422
Electrification	7,704,295	4,628,129
Entertainment	152,785	182,483
Plans	261,336	418,897
Bursaries	234,261	620,000
Insurance	1,234,180	553,375
Disabled project	-	135,506
Legal costs	558,456	66,703
Municipal partnership	338,900	2,058,828
Leave pay accrual	828,253	866,842
Maps and plans	544,831	3,691
Marketing and corporate	58,505	544,722
Mayoral expenses	-	365,985
Membership fees	500,000	500,000
Postage fees	3,257	6,455
Printing and stationery	763,594	632,055
Rental of land	111,656	315,822
Rental office machine	475,191	493,123
Road marking	324,294	-
Project launch cost	1,054,327	227,687
Subsistence and travelling	2,608,060	1,813,722
Telephone	566,838	1,380,549
Training direct expense	1,312,578	838,950
Transport official vehicles	2,164,790	3,444,897
Uniforms	323,972	662,045
Utilities - Other	312,396	2,054,763
Valuation costs - interims	520,804	670,278
Provision for landfill site	-	278,430
Ward council committee	3,196,728	1,314,789
Youth	-	138,357
	<b>40,968,520</b>	<b>36,457,260</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>33. Auditors' remuneration</b>		
Fees	2,879,975	3,166,962
<b>34. Cash generated from operations</b>		
Deficit	(46,224,632)	(5,249,998)
<b>Adjustments for:</b>		
Depreciation and amortisation	34,598,225	39,009,221
Gain (loss) on sale of assets and liabilities	3,098,796	(1,555)
Fair value adjustments	(1,752,921)	-
Impairment deficit	25,063,826	-
Movements in retirement benefit assets and liabilities	1,784,307	360,275
Movements in provisions	6,393,112	278,430
Other non-cash items	-	(1,538,912)
Other non-cash items	-	(1,483,144)
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(491,711)	1,519,249
Receivables from non-exchange transactions	(760,208)	1,434,563
Payables from exchange transactions	8,196,224	(2,702,311)
VAT	1,889,668	(97,133)
Unspent conditional grants and receipts	20,530	(490)
	<b>31,815,216</b>	<b>31,528,195</b>

### 35. Financial instruments disclosure

#### Categories of financial instruments

June 2019

#### Financial assets

	At amortised cost	Total
Cash and cash equivalents	20,553,029	20,553,029
Receivables from exchange transactions	1,824,463	1,824,463
Receivables from non-exchange transactions	22,322,027	22,322,027
	<b>44,699,519</b>	<b>44,699,519</b>



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### Financial instruments disclosure (continued)

#### Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	19,180,988	19,180,988

#### June 2018

#### Financial assets

	At amortised cost	Total
Cash and cash equivalents	53,086,038	53,086,038
Receivables from exchange transactions	2,158,008	2,158,008
Receivables from non-exchange transactions	21,561,819	21,561,819
	<b>76,805,865</b>	<b>76,805,865</b>

#### Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	10,984,765	10,984,765

### 36. Commitments

#### Authorised Capital and Operating / Current Expenditure

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

• Capital expenditure	118,963,945	142,366,125
• Operating / Current expenditure	8,361,566	6,061,776
	<b>127,325,511</b>	<b>148,427,901</b>

##### Not yet contracted for and authorised by accounting officer

• Infrastructure	40,341,000	82,725,000
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#### Total capital commitments

Already contracted for but not provided for	127,325,511	148,427,901
Not yet contracted for and authorised by accounting officer	40,341,000	82,725,000
	<b>167,666,511</b>	<b>231,152,901</b>

#### Total commitments

#### Total commitments

Authorised capital expenditure	167,666,511	231,152,901
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This committed expenditure relates to Infrastructure assets and other assets and will be financed by available bank facilities, small town rehabilitation grant, retained surpluses, existing cash resources and internally generated funds, etc.

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## Notes to the Annual Financial Statements

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### 37. Contingencies

#### Contingent liabilities

Performance bonus - Municipal manager	218,372	-
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### 38. Awards to close family members

#### Awards to close family members

Niksa Industries - Nephew of Mrs. S Narothumb ( Manager Corporate Service) who is employed by Dannhauser Municipality	-	17,700
Niksa Industries - Nephew of Mrs. S Narothumb ( Manager Corporate Service) who is employed by Dannhauser Municipality	282,915	43,360
Veez Micro Enterprise - Nephew of Mrs. S Narothumb ( Manager Corporate Service) who is employed by Dannhauser Municipality	2,056,200	2,767,273

### 39. Prior period errors

#### Property, plant and Equipment -Land & Buildings

During the year , the asset verification exercise revealed land that belonged to the municipality and that was not accounted for in the previous financial year. The Cost value increased by R 45 097 440. The value of accumulated depreciation is R 35 942 300.

#### Property, plant and Equipment -Infrastructure

During the year, the asset verification exercise revealed land that belonged to the municipality and that was not accounted for in the previous financial year. The Cost Value increased by R 72 636 620. Accumulated depreciation value is R 2 354 613.

#### Investment Property

Properties that were previously on the register were not owned by the municipality , value R 13 898 576.

#### General expenses

In the current year, it was discovered that certain general expenses that pertain to the 2017/18 financial year have been included in the current year. These resulted in 2017 general expenses (electrification costs) being understated and opening accumulated surplus being overstated.

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

#### Statement of financial position

Increase in Cost Property, plant and Equipment	-	121,183,492
Decrease in Accumulated depreciation	-	30,735,217
Decrease in Investment property cost	-	(13,898,576)
Decrease in opening accumulated surplus	-	765,133
	-	<b>138,785,266</b>

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## Notes to the Annual Financial Statements

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### 40. Comparative figures

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by reallocations, as well as the new classification of expenses in terms of Municipal Standard Chart of Accounts (MSCOA) between general expenses and contracted services.

#### Statement of financial performance

##### 2018

	Note	As previously reported	Re-classification	Restated
General expenses		(49,552,864)	13,095,604	(36,457,260)
Contracted services		-	(19,057,652)	(19,057,652)
Finance costs		-	(475,325)	(475,325)
Employee related costs		(28,188,095)	(292,637)	(28,480,732)
Repairs and maintenance		(6,730,010)	6,730,010	-
<b>Effect on surplus for the year</b>		<b>(84,470,969)</b>	<b>-</b>	<b>(84,470,969)</b>

### 41. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

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

Financial instrument	2019	2018
Cash and cash equivalents	20,553,029	53,086,038
Receivables from exchange transactions	1,824,463	2,158,008
Receivables from non-exchange transactions	22,322,027	21,561,819

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### 42. Going concern

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

### 43. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

### 44. Fruitless and wasteful expenditure

The accounting officer is not aware of any matter or event that give rise to fruitless and wasteful expenditure incurred during the financial year.

### 45. Irregular expenditure

Opening balance as previously reported	9,085,727	9,085,727
<b>Opening balance as restated</b>	<b>9,085,727</b>	<b>9,085,727</b>
Add: Irregular Expenditure - current	-	12,749,025
Less: Amount written off - current	-	(12,749,025)
Less: Amount written off - prior periods	(9,085,727)	-
<b>Closing balance</b>	<b>-</b>	<b>9,085,727</b>

Incidents/cases identified in the current year include those listed below:

Non compliance with SCM	-	1,124,442
Awards made to state employees	-	218,006
Non compliance with SCM - Invalid deviations	-	1,280,917
Non compliance with SCM - Functionality criteria and weighting not clearly specified	-	6,248,598
Non compliance with SCM - Original nor certified BBBEE certificate not submitted	-	213,764
	<b>-</b>	<b>9,085,727</b>

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<b>46. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	500,000	500,000
Amount paid - current year	(500,000)	(500,000)
	-	-
<b>Audit fees</b>		
Current year subscription / fee	2,879,975	3,166,962
Amount paid - current year	(2,879,975)	(3,166,962)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	5,520,793	4,472,082
Amount paid - current year	(5,520,793)	(4,472,082)
	-	-
<b>Pension and medical aid deductions</b>		
Opening balance	2,614,994	3,245,804
Current year subscription / fee	(2,614,994)	(3,245,804)
	-	-
<b>VAT</b>		
VAT receivable	1,351,098	3,240,761
All VAT returns have been submitted by the due date throughout the year.		
<b>Councillors' arrear consumer accounts</b>		
No councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:		
<b>Supply chain management regulations</b>		
In terms of Section 36 of the Municipal Supply Chain Management (SCM) Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have been condoned.		
<b>Incident</b>		
Deviations	1,062,966	4,737,470

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### 47. Budget differences

#### Material differences between budget and actual amounts

- 47.1 The variance is due to non payment by customers.
- 47.2 The tariffs for sport centre decreased. Less people hired halls as anticipated.
- 47.3 Most tickets were withdrawn by the Courts.
- 47.4 The actual other income is more than the budgeted amount because of insurance claim received.
- 47.5 The actual amount is more because the municipality appointed a debt collector.
- 47.6 Most vacant posts were not filled, hence the budgeted amount is more than actual.
- 47.7 Less amount budgeted for depreciation than anticipated.
- 47.8 The actual amount is more due to unexpected repairs on motor vehicles.
- 47.9 The actual amount is less than budgeted due to less spending in the current year.