



Maphumulo Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Maphumulo Local Municipality

(Registration number KZN294)

Annual Financial Statements for the year ended 30 June 2018

General Information

Mayoral committee

Mayor

Councillors

Cllr Z.F. Khuzwayo-Dlamini
Cllr C.Z. Ncalane (ANC Deputy Mayor)
Cllr C.S. Shange (ANC- Speaker)
Cllr P.N. Nxumalo(IFP - Exco Member)
Cllr N.B. Hlongwa (ANC - Councillor)
Cllr M.H. Khoza (ANC - Councillor)
Cllr D.B. Luthuli (ANC - Councillor)
Cllr T.P. Mchunu (IFP - Councillor)
Cllr Z.G. Mthembu (IFP - Councillor)
Cllr F.M. Ncalane (ANC - Councillor)
Cllr NH Ngcobo(ANC - Councillor)
Cllr S. Nyathikazi (IFP - Councillor)
Cllr K.P. Ninela (IFP - Councillor)
Cllr Z.W. Ninela (ANC Councillor)
Cllr J.N. Ntuli (ANC- Councillor)
Cllr N.S. Ntuli (ANC - Councillor)
Cllr M.F. Nzuzza (IFP - Councillor)
Cllr S.Z.M. Nzuzza (ANC - Councillor)
Cllr N. Sithole (IFP - Councillor)
Cllr K.M. Xhakaza (ANC - Councillor)
Cllr T.J. Zungu (IFP - Councillor)
Cllr J.M. Khathi (IFP- Councillor)

Grading of local authority

Two

Accounting Officer

C.S. Mhlongo (Acting) 01 July - 31 August 2017
P.N. Mhlongo 01September 2017 - To Date

Chief Finance Officer (CFO)

G.S. Majola (Acting) 01 July 2017 - 30 September 2017
N. Duma 01 October 2017- To Date

Business address

MR 711 LOT 152
Maphumulo
4470

Postal address

Private Bag X9205
Maphumulo
4470

Bankers

First National Bank
250255

Auditors

Auditor General of South Africa

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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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Accounting Officer's Responsibilities and Approval

As an accounting officer I am 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 my 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.

I certify that the salaries, allowances and benefits of Councillors, if any, as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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 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 losses.

The accounting officer has reviewed the municipality's cash flow forecast for the financial year ended 30 June 2019 and current financial position, in the light of this reviews and the, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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 4 to 51, which have been prepared on the going concern basis, were approved by the council on 31 August 2018 and were signed on its behalf by:

Accounting Officer
Mr. P.N. Mhlongo (Municipal Manager)

Maphumulo Local Municipality

(Registration number KZN294)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|--|---------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Receivables from exchange transactions | 2 | 840 457 | 1 014 337 |
| VAT receivable | 3 | 4 301 512 | 1 332 556 |
| Prepayments | 4 | 618 776 | 386 463 |
| Receivables from Non-Exchange Transactions | 5 | 18 421 937 | 14 235 844 |
| Accrued Interest Investment | | 63 583 | - |
| Cash and cash equivalents | 6 | 22 056 993 | 32 588 258 |
| | | 46 303 258 | 49 557 458 |
| Non-Current Assets | | | |
| Investment property | 7 | 10 971 208 | 11 508 361 |
| Property, plant and equipment | 8 | 219 668 842 | 196 039 398 |
| Intangible assets | 9 | 804 348 | 981 556 |
| | | 231 444 398 | 208 529 315 |
| Total Assets | | 277 747 656 | 258 086 773 |
| Liabilities | | | |
| Current Liabilities | | | |
| Long Term Loan | 10 | 849 138 | 2 010 917 |
| Finance lease obligation | 11 | - | 671 662 |
| Payables from exchange transactions | 12 | 23 121 016 | 22 298 167 |
| Unspent conditional grants and receipts | | 12 591 044 | 16 705 150 |
| Provisions | 13 | 685 757 | 141 041 |
| | | 37 246 955 | 41 826 937 |
| Non-Current Liabilities | | | |
| Long Term Loan | 10 | - | 850 106 |
| Provisions | 13 | 915 958 | 908 060 |
| | | 915 958 | 1 758 166 |
| Total Liabilities | | 38 162 913 | 43 585 103 |
| Net Assets | | 239 584 743 | 214 501 670 |
| Accumulated surplus | | 239 584 743 | 214 501 670 |

* See Note 37

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---------|----------------------|---------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 14 | 900 | - |
| Rental of facilities and equipment | 15 | 766 998 | 906 176 |
| Interest charged on trade and other receivable | 16 | 1 029 482 | 1 457 585 |
| Licences and permits | | 456 | 600 |
| Other income | 17 | 655 761 | 145 494 |
| Interest received - investment | 18 | 2 863 820 | 3 196 930 |
| Total revenue from exchange transactions | | 5 317 417 | 5 706 785 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 19 | 15 401 260 | 12 658 191 |
| Transfer revenue | | | |
| Government grants & subsidies | 20 | 105 448 105 | 96 350 437 |
| Total revenue from non-exchange transactions | | 120 849 365 | 109 008 628 |
| Total revenue | | 126 166 782 | 114 715 413 |
| Expenditure | | | |
| Employee related costs | 22 | (30 575 200) | (27 200 046) |
| Remuneration of councillors | 23 | (8 245 488) | (6 511 849) |
| Auditor's Remuneration | 24 | (3 788 529) | (2 187 779) |
| Depreciation and amortisation | 25 | (12 758 702) | (11 146 454) |
| Impairment loss/ Reversal of impairments | 26 | (762 035) | (453 645) |
| Finance costs | 27 | (246 942) | (804 887) |
| Debt Impairment | 28 | (1 904 798) | (639 794) |
| Repairs and Maintenance | 29 | (4 920 150) | (2 009 459) |
| General Expenses | 30 | (37 982 350) | (31 530 240) |
| Total expenditure | | (101 184 194) | (82 484 153) |
| Operating surplus | | 24 982 588 | 32 231 260 |
| Profit / Loss on disposal of assets | | 101 920 | (145 952) |
| Surplus for the year | | 25 084 508 | 32 085 308 |

* See Note 37

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Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Balance at 01 July 2016 | 181 976 942 | 181 976 942 |
| Changes in net assets | | |
| Prior period error: Depreciation | 437 986 | 437 986 |
| Net income (losses) recognised directly in net assets | 437 986 | 437 986 |
| Surplus for the year | 32 179 389 | 32 179 389 |
| Total recognised income and expenses for the year | 32 617 375 | 32 617 375 |
| Total changes | 32 617 375 | 32 617 375 |
| Opening balance as previously reported | 214 594 317 | 214 594 317 |
| Adjustments | | |
| Prior year adjustment: Depreciation | 301 245 | 301 245 |
| Prior year adjustment: Study assistance | (395 327) | (395 327) |
| Balance at 01 July 2017 | 214 500 235 | 214 500 235 |
| Changes in net assets | | |
| Surplus for the year | 25 084 508 | 25 084 508 |
| Total changes | 25 084 508 | 25 084 508 |
| Balance at 30 June 2018 | 239 584 743 | 239 584 743 |

* See Note 37

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Cash Flow Statement

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash Receipts from Ratepayers, Government & Others | | 111 975 376 | 112 088 138 |
| Interest income | | 2 863 820 | 3 196 929 |
| | | <u>114 839 196</u> | <u>115 285 067</u> |
| Payments | | | |
| Employee costs and councillors remuneration | | (38 820 688) | (34 107 222) |
| Suppliers | | (47 220 364) | (34 692 743) |
| Finance costs | | (246 942) | (804 887) |
| | | <u>(86 287 994)</u> | <u>(69 604 852)</u> |
| Net cash flows from operating activities | 31 | <u>28 551 202</u> | <u>45 680 215</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 8 | (36 468 907) | (27 963 481) |
| Proceeds from sale of property, plant and equipment | 8 | 133 570 | - |
| Purchase of other intangible assets | 9 | - | (867 597) |
| Increase/Decrease in Other Assets | | (63 583) | - |
| | | <u>(36 398 920)</u> | <u>(28 831 078)</u> |
| Cash flows from financing activities | | | |
| Increase/ (Decrease) of Long term liabilities | | (2 011 885) | (920 060) |
| Increase/ (Decrease) in Finance lease liability | | (671 662) | (6 137 399) |
| | | <u>(2 683 547)</u> | <u>(7 057 459)</u> |
| Net increase/(decrease) in cash and cash equivalents | | (10 531 265) | 9 791 678 |
| Cash and cash equivalents at the beginning of the year | | <u>32 588 258</u> | <u>22 796 580</u> |
| Cash and cash equivalents at the end of the year | 6 | <u>22 056 993</u> | <u>32 588 258</u> |

* See Note 37

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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 | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | - | - | - | 900 | 900 | A |
| Rental of facilities and equipment | 1 017 849 | - | 1 017 849 | 766 998 | (250 851) | B |
| Interest received (trading) | 1 920 000 | - | 1 920 000 | 1 029 482 | (890 518) | C |
| Licences and permits | 4 560 | - | 4 560 | 456 | (4 104) | D |
| Other income | 249 251 | 381 560 | 630 811 | 655 761 | 24 950 | E |
| Interest received - investment | 2 141 054 | 787 007 | 2 928 061 | 2 863 820 | (64 241) | |
| Total revenue from exchange transactions | 5 332 714 | 1 168 567 | 6 501 281 | 5 317 417 | (1 183 864) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 13 950 000 | - | 13 950 000 | 15 401 260 | 1 451 260 | F |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 116 525 000 | 5 000 000 | 121 525 000 | 105 448 105 | (16 076 895) | G |
| Total revenue from non-exchange transactions | 130 475 000 | 5 000 000 | 135 475 000 | 120 849 365 | (14 625 635) | |
| Total revenue | 135 807 714 | 6 168 567 | 141 976 281 | 126 166 782 | (15 809 499) | |
| Expenditure | | | | | | |
| Personnel | (31 149 000) | (1 056 000) | (32 205 000) | (30 575 200) | 1 629 800 | H |
| Remuneration of councillors | (7 157 695) | (672 048) | (7 829 743) | (8 245 488) | (415 745) | |
| Auditors Remuneration | (1 378 000) | (1 566 000) | (2 944 000) | (3 788 529) | (844 529) | I |
| Depreciation and amortisation | (14 190 390) | 1 477 031 | (12 713 359) | (12 758 702) | (45 343) | J |
| Impairment loss/ Reversal of impairments | - | - | - | (762 035) | (762 035) | |
| Finance costs | (243 767) | - | (243 767) | (246 942) | (3 175) | |
| Bad debts Impairment | (3 339 211) | 2 874 981 | (464 230) | (1 904 798) | (1 440 568) | K |
| Repairs and Maintenance | (3 950 000) | (1 541 000) | (5 491 000) | (5 057 609) | 433 391 | |
| General Expenses | (35 112 000) | (3 553 000) | (38 665 000) | (37 844 891) | 820 109 | L |
| Total expenditure | (96 520 063) | (4 036 036) | (100 556 099) | (101 184 194) | (628 095) | |
| Operating surplus | 39 287 651 | 2 132 531 | 41 420 182 | 24 982 588 | (16 437 594) | |
| Loss on disposal of assets and liabilities | - | - | - | 101 920 | 101 920 | |
| Surplus before taxation | 39 287 651 | 2 132 531 | 41 420 182 | 25 084 508 | (16 335 674) | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 39 287 651 | 2 132 531 | 41 420 182 | 25 084 508 | (16 335 674) | |

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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

A Service Charges

Service charges was not budgeted for in 2017/18 financial year, but the municipality resolve to start billing for rate collection at the end of February 2018.

B Rental of Facilities and Equipment

The variance of R890 518 is due to the fact that the municipality over budgeted for the rental debtors during the budget. This over budget is due to the fact that some rental debtors are not paying rates therefore the municipality is only billing the only ones that are paying .

C Interest Received (Trading)

The interest on outstanding debtors was over budgeted during the adjustment budget

D Licence and Permits

The municipality was over budgeted for the licence and permit, the budget was calculated based on the number of customers who supposed to pay their license fees but only few customers end up paying their licence fees.

E Other Income

Included in other income are tender documents sales which contribute a huge amount in other income account, as a result other income become over collected.

F Property Rates

This account is made of property rates billings, and property rates was under budgeted for during the budgeting stage.

G Government Grants & Subsidies

The variance of R1 356 391 is due to the fact that R5000 000 Small Town Taxi Rank grant that was budgeted was not full spent during this financial year

H Employee Related Cost

The variance is due to the fact that some vacant post that was budgeted for was not fulfilled during 2017/18 financial year.

I Auditors Remuneration

This variance is due to the fact that budget for auditors remuneration was under budgeted.

J Depreciation and Amortisation

Depreciation and amortisation was over budget

K Bad Debts Impairment

Bad debts impairment was under budgeted.

L General Expense

General expenses was over budgeted.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. This basis presumes that funds would be available to finance future operation, the realisation of assets and settlement of liabilities, Contingent Obligations and commitments would occur in the ordinary course of business see note 43.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables 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 loan balances in the portfolio and scaled to the estimated loss emergence period.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, 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 best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the municipality, supplemented by experience of similar transactions and, in some, cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighing all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation penalties arising from failure to fulfil it this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense. A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

Depreciation useful life the municipality depreciate all depreciable assets on a straight line method of depreciation over the assigned useful operating life of an assets.

Post employment benefits municipality would recognises the cost of those benefits over the period of the employee's services, consistently with accounting for other employee benefit.

Value in use cash generated assets should not be carried at amount higher than their service potential from use by the municipality unlike value in use the market value in use, a market value does not necessarily reflect the service potential of an assets.

Impairment loss should be recognised if it is considered probable that an asset is impaired i.e. if it is probable that the municipality will not recover the carrying amount of the assets (probability criterion)

Interest effective, all arrears in respect of accounts for rates and municipal services bear interest after days after due date at a rate prescribed. Accounts for rates that are billed yearly will bear interest after 60 days from the invoice or statement date.

1.4 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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Accounting Policies

1.4 Investment property (continued)

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

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

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

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

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

- Land held for longterm capital appreciation rather than for shortterm sale in the ordinary course of operations;
- Land held for a currently undetermined future use (if the municipality has not determined that it will use the land as owneroccupied property or for shortterm sale in the ordinary course of operations, the land is regarded as held for capital appreciation);

Investment property is unrecognised 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.

Investment property is subsequent at cost less accumulated depreciation and impairment of an assets over the useful life of an investment property which is 30 years. The impairment test of investment property are done on annual bases for every year

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.

1.5 Reserves

The municipality maintains no Reserves with exception of the Accumulated Surplus.

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.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|--------------------|---------------------|---------------------|
| Land and Buildings | Straight line | 10-30 years |

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1.6 Property, plant and equipment (continued)

| | | |
|------------------------|---------------|---------------|
| Plant and machinery | Straight line | 10 - 55 years |
| Furniture and fixtures | Straight line | 10-20 years |
| Motor vehicles | Straight line | 5-15 years |
| Office equipment | Straight line | 5-20years |
| IT Equipment | Straight line | 3-10 year |
| Infrastructure | Straight line | 10-50 years |

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 29).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

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1.7 Trade and Other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at yearend. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

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

If 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 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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1.8 Intangible assets (continued)

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---------------------|---------------------|
| Computer software, internally generated | Straight line | 5 years |

Intangible assets are derecognised:

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

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

1.9 Financial instruments

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

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.

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

A financial asset is:

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

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.

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1.9 Financial instruments (continued)

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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:

| Long Term Loan | Category |
|-----------------------|--|
| Long Term Loan | Financial asset measured at amortised cost |

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:

| Long Term Loan | Category |
|-----------------------|--|
| Long Term Loan | Financial liability measured at amortised cost |

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

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.

Financial assets measured at amortised cost:

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

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.

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1.9 Financial instruments (continued)

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

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.

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 municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

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

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

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Statutory receivables

Identification

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

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1.10 Statutory receivables (continued)

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the 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; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell 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 entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

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

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

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

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1.11 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

The defined benefit obligation, the related current cost and where applicable, pastservice, is determine by using the projected unit credit method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previopus reporting period exceed greater of.

10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested pastservice costs are recognized as an expense in the Statement of Financial Performance.

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contributionplans. The municipality is no longer providing retirement benefits for the Councillors as they are now getting a total cost tocompany package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A definedcontribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has nolegal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees thebenefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year theybecome payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially onthe projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sumpayments or increased future contributions on a proportional basis to all participating municipalities.

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1.12 Employee benefits (continued)

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance but are shown in the disclosure note to the extent that such amounts have been recorded in the financial statements.

Commitments disclosed in the notes to the financial amounts represent the aggregate amount of capital and current expenditure at the reporting date.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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

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

Measurement

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

Sale of goods

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

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

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1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest earned on investments

The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

1.15 Revenue from non-exchange transactions

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a 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.

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

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

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

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1.15 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

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.

Taxes

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 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.

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 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.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

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Accounting Policies

1.20 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.22 Related parties

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

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

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Accounting Policies

1.22 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

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

1.23 Events after reporting date

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

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

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

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

1.24 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued:

Standard or Interpretation

GRAP 20: Related parties

GRAP 32: Service Concession Arrangements: Grantor

GRAP 105: Transfers of functions between entities under common control

GRAP 106: Transfers of functions between entities not under common control

GRAP 107: Mergers

GRAP 108: Statutory Receivables

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| 2. Receivables from exchange transactions | | |
| Trade debtors - Rentals | 1 852 165 | 1 467 194 |
| Refuse | 1 031 | - |
| Rental Debtors Straght line | 316 749 | 316 749 |
| Sundry Debtors | 458 155 | 458 155 |
| Provision for Doubtful debts | (1 787 643) | (1 227 761) |
| | 840 457 | 1 014 337 |

Trade and other receivables past due but not impaired

Trade and other receivables due less than 5 months are not considered to be impaired. Only trade debtors (rentals) which are from 5 to 6 months due are considered to be impaired and rental debtors which are less than 5 months due are not considered to be impaired. Rental debtors due but not impaired as at 30 June 2018, R46 209 (2017: R 230 980) (these amounts is made of the different between rental debtors and the Debts impairment).

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

| | | |
|-------------------|---------------|----------------|
| Current | 67 749 | 66 223 |
| 1 months past due | (131 020) | 65 743 |
| 2 months past due | 52 152 | 61 761 |
| 3 months past due | 33 192 | 20 267 |
| 4 months past due | 24 136 | 16 986 |
| | 46 209 | 230 980 |

Trade and other receivables impaired

As of 30 June 2018, trade and other receivables of R 1 833 852 (2017: R 1 458 740) were impaired and provided for.

The amount of the provision was R1 787 643 as of 30 June 2018 (2017: R1 1 227 761).

The ageing of these provision is as follows:

| | | |
|---------------|------------------|------------------|
| 5 to 6 months | 13 737 | 15 121 |
| Over 6 months | 1 773 906 | 1 212 640 |
| | 1 787 643 | 1 227 761 |

Reconciliation of provision for impairment of trade and other receivables

| | | |
|--------------------------|--------------------|--------------------|
| Opening balance | (1 227 761) | (1 181 459) |
| Provision for impairment | (559 882) | (46 302) |
| | (1 787 643) | (1 227 761) |

No receivables have been pledged as security.

3. VAT receivable

| | | |
|-----|------------------|------------------|
| VAT | 4 301 512 | 1 332 556 |
|-----|------------------|------------------|

VAT is payable on the receipt basis. VAT is paid over to SARS only once payment is received from debtors

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| 4. Prepayments | | |
| AON Building Insurance Policy | 143 019 | 386 463 |
| SALGA Membership Fee | 475 000 | - |
| SIGFARO Membership Fee | 757 | - |
| | 618 776 | 386 463 |
| 5. Receivables from non-exchange transactions | | |
| Gross balances | | |
| Rates | 27 821 888 | 22 290 879 |
| Less: Allowance for impairment | | |
| Rates | (9 399 951) | (8 055 034) |
| Net balance | | |
| Rates | 18 421 937 | 14 235 845 |
| Trade and Other Receivables from Non Exchange past due but not impaired | | |
| Consumer Debtors are divided into three groups of debtors which are Government debtors, Commercial debtors and Other debtors (Ingonyama Trust). Only the Commercial debtors which are due from 4 to 6 months are considered to be impaired and commercial debtors which are due for less than 3 months are not considered to be impaired. At 30 June 2018, R15 472 510 (2017: R 14 235 844) were past due but not impaired | | |
| Balance of Consumer Debtors due but not impaired | | |
| Commercial Debtors | 428 156 | 570 417 |
| Government Debtors | 6 397 180 | 6 895 064 |
| Other Debtors | 8 647 174 | 6 770 363 |
| | 15 472 510 | 14 235 844 |
| Trade and Other Receivables past due but not impaired | | |
| Current (0 -30 days) | 383 052 | 699 568 |
| 31 - 60 days | 140 677 | 688 696 |
| 61 - 90 days | 140 677 | 610 601 |
| 91 - 120 days | 214 862 | 543 472 |
| 121 - 365 days | 17 542 669 | 11 693 507 |
| | 18 421 937 | 14 235 844 |
| Commercial Debtors | | |
| Current (0 -30 days) | 215 854 | 155 051 |
| 31 - 60 days | 54 343 | 153 022 |
| 61 - 90 days | 54 343 | 150 990 |
| 91 - 120 days | 103 615 | 111 354 |
| | 428 155 | 570 417 |

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| 5. Receivables from non-exchange transactions (continued) | | |
| Government Debtors | | |
| Current (0 -30 days) | (3 750) | 156 140 |
| 31 - 60 days | - | 152 404 |
| 61 - 90 days | - | 116 070 |
| 91 - 120 days | - | 121 131 |
| 121 - 365 days | 6 400 930 | 6 349 319 |
| | 6 397 180 | 6 895 064 |
| Other Debtors (Ingonyama Trust) | | |
| Current (0 -30 days) | 170 947 | 388 377 |
| 31 - 60 days | 86 333 | 383 270 |
| 61 - 90 days | 86 333 | 343 541 |
| 215854 | 111 248 | 310 986 |
| 54343 | 8 192 312 | 5 363 234 |
| | 8 647 173 | 6 789 408 |
| The ageing of the provision is as follows | | |
| 91 - 120 days | 103 025 | 149 394 |
| 121 - 365 days | 105 982 | 148 597 |
| > 365 days | 9 190 944 | 7 757 043 |
| | 9 399 951 | 8 055 034 |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (8 055 034) | (7 461 542) |
| Contributions to allowance | (1 344 917) | (593 492) |
| | (9 399 951) | (8 055 034) |
| 6. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 6 236 | 1 216 |
| Bank balances | 3 105 558 | 2 643 969 |
| Short-term Investments | 18 945 199 | 29 943 073 |
| | 22 056 993 | 32 588 258 |

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6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|-------------------------|-------------------|--------------|--------------------|-------------------|--------------|
| | 30 June 2018 | 30 June 2017 | 30 June 2016 | 30 June 2018 | 30 June 2017 | 30 June 2016 |
| FNB - Main - 620-238-689-98 | (57 957) | (416 874) | - | (57 957) | (559 937) | - |
| FNB - Investment Account - 710-44-3426-67 | 438 984 | 408 732 | - | 438 984 | 408 732 | - |
| FNB BANK - AInvestment Account - 741-056-039-86 | 2 373 690 | 2 217 492 | - | 2 373 690 | 2 217 492 | - |
| FNB Investment Account 623-467-553-01 | 23 873 | 22 437 | - | 23 873 | 22 437 | - |
| ABSA BANK - Current - 405-610-286-6 | 3 163 549 | 3 203 906 | - | 3 163 549 | 3 203 906 | - |
| ABSA BANK - Call Account - 915-984-753-2 | 84 032 | 79 474 | - | 84 032 | 79 474 | - |
| Standard BANK - 30 Days Account - 268-693-404 | 3 316 544 | 6 871 771 | - | 3 316 544 | 6 871 771 | - |
| Nedbank - Investment Account - 405-352-327-9 | 876 293 | 65 425 | - | 876 293 | 65 425 | - |
| Nedbank - Investment Account - 309-554-919-995 | 69 101 | 819 563 | - | 69 101 | 819 563 | - |
| Nedbank - Investment Account - 398-012-179-996 | 553 154 | 518 568 | - | 553 154 | 518 568 | - |
| ABSA BANK - Investment Account - 908-497-343-4 | 11 088 108 | - | - | 11 088 108 | - | - |
| ABSA BANK - Investment Account - 929-323-815-4 | - | 10 375 312 | - | - | 10 375 312 | - |
| FNB BANK - AInvestment Account - 625-756-885-13 | 121 421 | 2 923 605 | - | 121 421 | 2 923 605 | - |
| FNB BANK - AInvestment Account - 716-246-118-46 | - | 5 640 694 | - | - | 5 640 694 | - |
| FNB BANK - AInvestment Account - 622-075-397-95 | (34) | - | - | (34) | - | - |
| Total | 22 050 758 | 32 730 105 | - | 22 050 758 | 32 587 042 | - |

7. Investment property

| | 2018 | | | 2017 | | |
|---------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 16 114 609 | (5 143 401) | 10 971 208 | 16 114 609 | (4 606 248) | 11 508 361 |

Reconciliation of investment property - 2018

| | Opening balance | Depreciation | Total |
|---------------------|-----------------|--------------|------------|
| Investment property | 11 508 361 | (537 153) | 10 971 208 |

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7. Investment property (continued)

Reconciliation of investment property - 2017

| | Opening balance | Depreciation | Total |
|-------------------------------------|--------------------|--------------|------------|
| Investment property | 12 046 772 | (538 411) | 11 508 361 |
| Fair value of investment properties | | 12 500 000 | 12 400 000 |

Fair Value measurements

The Investment Property was valued on the 30th of June 2018 and the inspection of property was undertaken in August 2018, this valuation has been undertaken in accordance with International Valuation Standards by BPG Mass Appraisals (Pty) Ltd. The Property legal description is Erf 358 and 359 Maphumulo ERF 1 Township which is 5 733 meter square. The market value of property is R12 500 000 (R200 000 land value and R12 300 000 building value).

| | | |
|---|----------------|----------------|
| Income Generated from investment property | 737 715 | 1 019 125 |
| Total expenditure incurred relates to Investment property | (378 016) | (392 610) |
| | 359 699 | 626 515 |

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.

There were no assets pledged as security for the year ended 30 June 2018

8. Property, plant and equipment

| | 2018 | | | 2017 | | |
|------------------------|---------------------|--|--------------------|---------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land & Buildings | 115 647 733 | (13 035 485) | 102 612 248 | 108 639 918 | (9 660 087) | 98 979 831 |
| Plant and machinery | 21 284 324 | (6 315 224) | 14 969 100 | 21 197 424 | (4 746 049) | 16 451 375 |
| Furniture and fixtures | 4 780 849 | (2 922 543) | 1 858 306 | 4 727 449 | (2 430 584) | 2 296 865 |
| Motor vehicles | 5 003 671 | (1 971 334) | 3 032 337 | 4 230 885 | (1 544 580) | 2 686 305 |
| Office equipment | 2 719 941 | (1 721 298) | 998 643 | 2 614 338 | (1 306 938) | 1 307 400 |
| IT equipment | 1 743 398 | (879 494) | 863 904 | 1 283 900 | (571 836) | 712 064 |
| Infrastructure | 134 223 024 | (38 888 720) | 95 334 304 | 105 974 631 | (32 369 073) | 73 605 558 |
| Total | 285 402 940 | (65 734 098) | 219 668 842 | 248 668 545 | (52 629 147) | 196 039 398 |

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Annual Financial Statements for the year ended 30 June 2018

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|------------------------|--------------------|-------------------|-----------------|-----------------------|---------------------|---------------------|--------------------|--------------------|
| Land & Buildings | 98 979 831 | 7 007 815 | - | 5 812 644 | (5 812 644) | (2 893 986) | (481 412) | 102 612 248 |
| Plant and machinery | 16 451 375 | 86 899 | - | - | - | (1 415 084) | (154 090) | 14 969 100 |
| Furniture and fixtures | 2 296 865 | 53 400 | - | - | - | (473 206) | (18 754) | 1 858 305 |
| Motor vehicles | 2 686 305 | 936 512 | (1 716) | - | - | (588 763) | - | 3 032 338 |
| Office equipment | 1 307 400 | 105 604 | - | - | - | (352 247) | (62 113) | 998 644 |
| IT equipment | 712 064 | 502 909 | (29 934) | - | - | (275 471) | (45 664) | 863 904 |
| Infrastructure | 73 605 558 | 27 775 768 | - | 16 598 929 | (16 598 929) | (6 047 022) | - | 95 334 304 |
| | 196 039 398 | 36 468 907 | (31 650) | 22 411 573 | (22 411 573) | (12 045 779) | (762 033) | 219 668 843 |

work - In - Progress

| | Opening Balance | Additions | Completed Projects | Closing Balance |
|-----------------|--------------------|-------------------|-----------------------|--------------------|
| Buildings | 27 135 533 | 6 222 146 | (5 812 644) | 27 545 035 |
| Electrification | 1 776 972 | - | - | 1 776 972 |
| Infrastructure | 13 090 377 | 28 157 948 | (16 598 929) | 24 649 396 |
| | 42 002 882 | 34 380 094 | (22 411 573) | 53 971 403 |

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|------------------------|--------------------|-------------------|-----------------|-----------------------|---------------------|---------------------|--------------------|--------------------|
| Buildings | 79 563 827 | 21 810 221 | - | 25 682 747 | (25 682 747) | (1 940 575) | (453 645) | 98 979 828 |
| Plant and machinery | 17 635 752 | 198 700 | - | - | - | (1 383 077) | - | 16 451 375 |
| Furniture and fixtures | 2 612 897 | 216 860 | (55 150) | - | - | (477 742) | - | 2 296 865 |
| Motor vehicles | 620 589 | 2 233 205 | - | - | - | (167 489) | - | 2 686 305 |
| Office equipment | 1 555 217 | 42 590 | (6 269) | - | - | (284 138) | - | 1 307 400 |
| IT equipment | 633 035 | 308 974 | (15 119) | - | - | (214 826) | - | 712 064 |
| Infrastructure | 76 451 946 | 3 152 934 | - | - | - | (5 999 322) | - | 73 605 558 |
| | 179 073 263 | 27 963 484 | (76 538) | 25 682 747 | (25 682 747) | (10 467 169) | (453 645) | 196 039 395 |

Working - In- Progress

| | Opening Balance | Additions | Completed Projects | Closing Balance |
|-----------------|--------------------|-------------------|-----------------------|--------------------|
| Buildings | 31 587 775 | 21 230 505 | (25 682 747) | 27 135 533 |
| Electrification | 1 776 972 | - | - | 1 776 972 |
| Infrastructure | 9 937 443 | 3 152 934 | - | 13 090 377 |
| | 43 302 190 | 24 383 439 | (25 682 747) | 42 002 882 |

Pledged as security

There were no assets pledged as security for the year ended 30 June 2018:

Assets subject to finance lease (Net carrying amount)

| | | |
|---------------------|---|------------|
| Plant and machinery | - | 11 926 400 |
|---------------------|---|------------|

An assessment of the useful lives of property plant and equipment was conducted in the current reporting period. A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality

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9. Intangible assets

| | 2018 | | | 2017 | | |
|--------------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1 133 927 | (329 579) | 804 348 | 1 133 927 | (152 371) | 981 556 |

Reconciliation of intangible assets - 2018

| | Opening balance | Amortisation | Total |
|--------------------------|-----------------|--------------|---------|
| Computer software, other | 981 556 | (177 208) | 804 348 |

Reconciliation of intangible assets - 2017

| | Opening balance | Additions | Disposals | Amortisation | Total |
|--------------------------|-----------------|-----------|-----------|--------------|---------|
| Computer software, other | 324 250 | 867 597 | (69 416) | (140 875) | 981 556 |

10. Long Term Borrowings

Designated at fair value

| | | |
|-----------------|---------|-----------|
| Bank loan - FNB | 849 138 | 2 861 023 |
|-----------------|---------|-----------|

The bank loan was advanced by First National Bank for a period of 10 years commencing on 12 December 2008. An installment of R450 577.10 is payable quarterly in arrears.

The applicable interest rate is 8.8% fixed base rate and 3.9% margin rate

Non-current liabilities

| | | |
|--------------------------|---|---------|
| Designated at fair value | - | 850 106 |
|--------------------------|---|---------|

Current liabilities

| | | |
|--------------------------|---------|-----------|
| Designated at fair value | 849 138 | 2 010 917 |
|--------------------------|---------|-----------|

11. Finance lease obligation

Minimum lease payments due

| | | |
|-------------------|---|---------|
| - within one year | - | 680 229 |
|-------------------|---|---------|

less: future finance charges

| | | |
|--|---|---------|
| | - | 680 229 |
| | - | (8 567) |

Present value of minimum lease payments

| | | |
|--|---|---------|
| | - | 671 662 |
|--|---|---------|

Present value of minimum lease payments due

| | | |
|-------------------|---|---------|
| - within one year | - | 671 662 |
|-------------------|---|---------|

There is no assets under finance lease at the end of the financial year.

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|--|-------------------|-------------------|
| 12. Payables from exchange transactions | | |
| Retention and Gaurantees | 13 587 385 | 12 072 654 |
| Trade Payables | 2 755 171 | 4 699 625 |
| Accrued Leave Pay | 2 640 605 | 2 441 940 |
| Accrued Trade Payables | 3 155 895 | 1 622 269 |
| Accrued Bonuses | 842 531 | 798 512 |
| Other payables | 139 429 | 551 722 |
| Other debtors (PAYE Control) | - | 110 520 |
| Indemnity | - | 925 |
| | 23 121 016 | 22 298 167 |
| 13. Provisions | | |
| Non-current liabilities | 915 958 | 908 060 |
| Current liabilities | 685 757 | 141 041 |
| | 1 601 715 | 1 049 101 |
| Non-Current Liabilities | | |
| Non current liabilities are made of Long service award provision of R915 958 . | | |
| Current Liabilities | | |
| Current liabilities includes the Long service award provision of R138 210 and Provision for Salary to Former Municipal Manager R547 547. | | |
| The key assumptions used in valuation, with prior years assumptions shown the summerised below . | | |
| Discount Rate | | |
| 9,18% | | |
| General Salary Inflation (long term) | | |
| 5,73% | | |
| Net effective Discount Rate | | |
| 9,18% | | |
| General Salary Inflation (long term) | | |
| 2.30% | | |
| Net effective Discount Rate | | |
| The key assumptions used in valuation, with prior years assumptions shown for comparison, are summerised below, | | |
| 14. Service charges | | |
| Service charges | 900 | - |
| 15. Rental of facilities and equipment | | |
| Facilities and equipment | | |
| Rental | 748 403 | 899 407 |
| Hall Hire | 18 595 | 6 769 |
| | 766 998 | 906 176 |

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|--|-------------------|-------------------|
| 16. Interest charged on trade and other receivables | | |
| Interest On Consumer Debtors | 894 066 | 1 243 367 |
| Interest on Rental Debtors | 135 416 | 241 218 |
| | 1 029 482 | 1 484 585 |
| 17. Other income | | |
| Tender Document Sale | 193 703 | 61 207 |
| Sundry income | 457 236 | 79 913 |
| Admin Fee and Commission | 4 822 | 4 374 |
| | 655 761 | 145 494 |
| 18. Interest Received - Investments | | |
| Interest revenue | | |
| Other financial assets (Investments) | 2 206 976 | 2 416 315 |
| Bank (Main and Current) | 656 844 | 780 615 |
| | 2 863 820 | 3 196 930 |
| 19. Property rates | | |
| Rates | | |
| State | 20 488 650 | 22 984 554 |
| Less: Income forgone | (5 087 390) | (10 326 363) |
| | 15 401 260 | 12 658 191 |

Property rates levied in terms of the Local Government : Municipal Property Rates Act No. 6 of 2004 with effect from 1 July 2009. Randage applicable to all properties equal to 0.05 as approved by the council. Rebates amount to 30% for all categories except for Ingonyama Trust Board which receives a 50% rebate. The current valuation roll was implemented on 1 July 2014.

The summary of valuation property is as follows

| Property Group | No of Property | Market Value |
|-------------------------------|----------------|--------------------|
| Residential | 64 | 22 487 000 |
| Commercial | 32 | 40 853 000 |
| Industrial | 1 | 800 000 |
| Agricultural | 4 | 850 000 |
| Agricultural (Rural Communal) | 27 | 108 602 000 |
| Institutional | 142 | 256 692 000 |
| Specialized Property | 14 | 53 080 000 |
| Public Service Infrastructure | 1 | 720 000 |
| Municipal Property | 312 | 26 069 000 |
| | 597 | 510 153 000 |

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| 20. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 75 259 000 | 71 404 000 |
| Financial Management Grant (FMG) | 1 900 000 | 1 877 000 |
| Sport Grant | 393 496 | 145 763 |
| Expanded Public Works Program (EPWP) | 1 553 712 | 1 236 287 |
| | 79 106 208 | 74 663 050 |
| Capital grants | | |
| Intergrated National Eletrification Program (INEP) | - | 386 387 |
| Municipal Infrastructure Grant (MIG) | 22 646 000 | 21 301 000 |
| Small Town Rehabilitation Grant | 3 695 897 | - |
| | 26 341 897 | 21 687 387 |
| | 105 448 105 | 96 350 437 |
| Unspent conditional grants and receipts | | |
| Unspent conditional grants and receipts comprises of : | | |
| Small Town Rehabilitation Grant | 4 997 837 | 8 693 734 |
| Corridor Development | 7 493 207 | 7 493 207 |
| Sport Grant | - | 393 496 |
| Titanium Mining | 100 000 | 100 000 |
| Expandend Public Works Program (EPWP) | - | 24 713 |
| | 12 591 044 | 16 705 150 |
| Sports Grant | | |
| Balance unspent at beginning of year | 393 496 | 207 259 |
| Current-year receipts | - | 332 000 |
| Conditions met - transferred to revenue | (393 496) | (145 763) |
| | - | 393 496 |
| Small Town Rehabilitation Grant | | |
| Balance unspent at beginning of year | 8 693 734 | 8 693 734 |
| Conditions met - transferred to revenue | (3 695 897) | - |
| | 4 997 837 | 8 693 734 |
| Corridor Development Grant | | |
| Balance unspent at beginning of year | 7 493 207 | 7 493 207 |
| Expanded Public Works Program (EPWP) | | |
| Balance unspent at beginning of year | 24 712 | - |
| Current-year receipts | 1 529 000 | 1 261 000 |
| Conditions met - transferred to revenue | (1 553 712) | (1 236 288) |
| | - | 24 712 |
| Municipal Infrastructure Grant (MIG) | | |

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| 20. Government grants and subsidies (continued) | | |
| Current-year receipts | 22 646 000 | 21 301 000 |
| Conditions met - transferred to revenue | (22 646 000) | (21 301 000) |
| | <u>-</u> | <u>-</u> |
| Titanium Mining | | |
| Balance unspent at beginning of year | <u>100 000</u> | <u>100 000</u> |
| Financial Management Grant (FMG) | | |
| Balance unspent at beginning of year | - | 52 000 |
| Current-year receipts | 1 900 000 | 1 825 000 |
| Conditions met - transferred to revenue | (1 900 000) | (1 877 000) |
| | <u>-</u> | <u>-</u> |
| 21. Revenue | | |
| Government grants & subsidies | 105 448 105 | 96 350 437 |
| Property rates | 15 401 260 | 12 658 191 |
| Interest received investment | 2 863 820 | 3 196 930 |
| Interest charged on trade and other receivables | 1 029 482 | 1 457 585 |
| Rental of facilities and equipment | 766 998 | 906 176 |
| Other income | 655 761 | 145 494 |
| Licences and permits | 456 | 600 |
| Service Charges | 900 | - |
| | <u>126 166 782</u> | <u>114 715 413</u> |
| The amount included in other revenue arising from exchanges of goods or services are as follows: | | |
| Interest received investment | 2 863 820 | 3 196 930 |
| Interest charged on trade and other receivables | 1 029 482 | 1 457 585 |
| Rental of facilities and equipment | 767 998 | 906 176 |
| Other income | 655 761 | 145 494 |
| Service Charges | 900 | - |
| Licences and permits | 456 | 600 |
| | <u>5 318 417</u> | <u>5 706 785</u> |
| The amount included in other revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | <u>15 401 260</u> | <u>12 658 191</u> |
| Transfers | | |
| Government grants & subsidies | <u>105 448 105</u> | <u>96 350 437</u> |
| | <u>120 849 365</u> | <u>109 008 628</u> |

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22. Employee related costs

| | | |
|-------------------------------------|-------------------|-------------------|
| Basic | 23 191 512 | 19 816 569 |
| Bonus | 1 445 164 | 1 317 831 |
| Defined contribution plans | 2 124 301 | 2 235 568 |
| Car allowance | 1 632 120 | 1 221 462 |
| Medical aid - company contributions | 1 134 008 | 1 089 147 |
| Leave Accrued | 429 303 | 759 611 |
| SDL | 200 856 | 218 538 |
| Housing benefits and allowances | 79 878 | 190 012 |
| UIF | 170 256 | 141 789 |
| Long-service awards | 5 067 | 137 040 |
| Cellphone Allowance | 110 470 | 47 191 |
| Membership Fees | 52 265 | 25 288 |
| | 30 575 200 | 27 200 046 |

Remuneration of Municipal Manager

| | | |
|---------------------|----------------|---------------|
| Annual Remuneration | 572 345 | 86 430 |
| Car Allowance | 245 248 | - |
| Acting allowance | 18 207 | - |
| | 835 800 | 86 430 |

Acting allowance was paid to Mr. CS Mhlongo as an acting municipal manager from July -August 2017 and R 817 593 is a remuneration paid to municipal manager Mr.P.N Mhlongo as from September 2017 when he was appointed as municipal manager.

Remuneration of Chief Finance Officer

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 371 314 | 110 975 |
| Car Allowance | 159 135 | - |
| Acting allowance | 28 715 | - |
| | 559 164 | 110 975 |

Acting allowance was paid to Mr. G.S. Majola as an acting CFO from July -October 2017 and R530 449 is a remuneration paid to CFO Mr. N. Duma as from October 2017 when he was appointed as Chief Financial Officer.

Remuneration of Planning and Local Economic Development directors

| | | |
|---|----------|----------------|
| Annual Remuneration | - | 642 314 |
| Car Allowance | - | 207 284 |
| Contributions to UIF, Medical and Pension Funds | - | 9 445 |
| | - | 859 043 |

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| 22. Employee related costs (continued) | | |
| Remuneration of Technical and Housing directors | | |
| Annual Remuneration | - | 480 236 |
| Car Allowance | - | 155 538 |
| Contributions to UIF, Medical and Pension Funds | - | 7 513 |
| | <u>-</u> | <u>643 287</u> |
| Corporate and Human Resources (Corporate Services) | | |
| Annual Remuneration | 422 858 | 18 957 |
| Car Allowance | 181 225 | - |
| Acting Allowance | 11 409 | - |
| | <u>615 492</u> | <u>18 957</u> |
| Acting allowance was paid to Miss T sithole a as an acting Director: Corporate Services from July -August 2017 and R604 083 is a remuneration paid to Director Corporate Services Mr.T. Khuluse as from September 2017 when he was appointed as e Director Corporate Services | | |
| 23. Remuneration of Councillors | | |
| Mayor | 814 638 | 686 012 |
| Deputy Mayor | 371 471 | 326 651 |
| Mayoral Committee Members | 377 185 | 337 608 |
| Speaker | 379 776 | 329 264 |
| Councillors | 4 280 339 | 3 516 326 |
| Cellphone Allowance | 831 478 | 347 800 |
| Travel Allowance | 1 190 601 | 968 188 |
| | <u>8 245 488</u> | <u>6 511 849</u> |
| In-kind benefits | | |
| The Mayor is a full time councillor and she received secretarial services and the use of a municipal vehicle, both were paid for by the municipality. | | |
| The Deputy Mayor and Speaker received the use of municipal vehicle paid for by the municipality. | | |
| The Mayor has two fulltime bodyguards paid for by the municipality. | | |
| 24. Auditors Remuneration | | |
| Auditors Remuneration | <u>3 788 529</u> | <u>2 187 779</u> |
| 25. Depreciation and amortisation | | |
| Property, plant and equipment | 12 044 341 | 10 467 168 |
| Investment property | 537 153 | 538 411 |
| Intangible assets | 177 208 | 140 875 |
| | <u>12 758 702</u> | <u>11 146 454</u> |
| 26. Impairment of assets | | |
| Impairments | | |
| Property, plant and equipment | <u>762 035</u> | <u>453 645</u> |

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| 27. Finance costs | | |
| Other interest paid | 246 942 | 804 887 |
| 28. Debt impairment | | |
| Contributions to debt impairment provision - Rental debtors | 559 882 | 46 302 |
| Contribution to debt impairment provision - Consumer Debtors | 1 344 916 | 593 492 |
| | 1 904 798 | 639 794 |
| 29. Repairs and Maintenance | | |
| Sport Field | 50 650 | 33 390 |
| Vehicles | 1 073 443 | 1 090 239 |
| Roads | 537 164 | 327 950 |
| Furniture and Equipment | 25 980 | 45 858 |
| Computer Equipment | - | 1 410 |
| Plant and Machinery | 1 848 548 | - |
| Buildings | 1 326 262 | 510 612 |
| Office Equipment | 58 103 | - |
| | 4 920 150 | 2 009 459 |

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| 30. General expenses | | |
| Advertising and Communications | 3 577 909 | 446 823 |
| Bank charges | 235 155 | 82 008 |
| Cleaning Services | 1 094 309 | 1 604 773 |
| Consulting and professional fees | 2 775 573 | 4 033 165 |
| Entertainment | 5 690 844 | 126 785 |
| Interest and penalties | 209 818 | 47 767 |
| Healthy and Safety | 111 738 | - |
| Hire Charges | 872 509 | 2 908 290 |
| Insurance | 489 471 | 765 975 |
| Community development and training | 2 135 141 | 5 335 397 |
| Conferences and seminars | 194 000 | 613 142 |
| Medical expenses | 29 343 | 24 750 |
| Fuel and oil | 1 779 557 | 2 032 072 |
| Postage and courier | 2 912 | 523 |
| Printing and stationery | 423 278 | 193 105 |
| Security Services | 3 561 266 | 3 230 113 |
| Bursaries | 791 980 | 753 269 |
| Subscriptions and membership fees | 519 340 | 667 558 |
| Telephone and fax | 1 340 318 | 1 066 981 |
| Training | 726 539 | 257 179 |
| Travel - local | 3 383 351 | 1 354 792 |
| Electricity | 1 778 148 | 1 169 097 |
| Uniforms | 362 539 | 384 756 |
| Tourism development | 128 256 | 784 853 |
| IDP Review | 577 708 | 1 113 088 |
| Audit Committee | 192 450 | 124 221 |
| Transfers with in Municipality | 1 167 500 | - |
| Licenses | 1 990 486 | 607 149 |
| Free Basic Services | 486 148 | 466 454 |
| LED Projects | 846 897 | 152 646 |
| Valuation Roll | - | 68 768 |
| Billing charges | 51 387 | 106 170 |
| Electrification | 456 480 | 1 |
| Other expenses | - | 1 008 570 |
| | 37 982 350 | 31 530 240 |
| 31. Cash generated from operations | | |
| Surplus | 25 084 508 | 32 085 308 |
| Adjustments for: | | |
| Depreciation and amortisation | 12 758 702 | 11 146 454 |
| Profit on disposal of assets and liabilities | (101 920) | 145 952 |
| Impairment deficit | 762 035 | 453 645 |
| Debt impairment | 1 904 798 | 639 794 |
| Movements in provisions | 552 614 | (5 355 458) |
| Changes in working capital: | | |
| Receivables from exchange transactions | 173 880 | 628 769 |
| Consumer debtors | (6 090 890) | (3 058 169) |
| Prepayments | (232 313) | 309 713 |
| Payables from exchange transactions | 822 849 | 6 248 274 |
| VAT | (2 968 956) | 2 276 984 |
| Unspent conditional grants and receipts | (4 114 105) | 158 949 |
| | 28 551 202 | 45 680 215 |

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|---|-------------------|-------------------|
| 32. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 53 755 046 | 19 191 934 |
| • Investment property | 8 615 315 | 2 624 645 |
| | 62 370 361 | 21 816 579 |
| Total capital commitments | | |
| Already contracted for but not provided for | 62 370 361 | 21 816 579 |
| Operating leases - as lessee (expense) | | |
| Minimum lease payments due | | |
| - within one year | - | 204 170 |
| Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. | | |
| 33. Fruitless and wasteful expenditure | | |
| Opening Balance | 56 304 | 56 304 |
| Fruitless and wasteful expenditure | 761 071 | - |
| | 817 375 | 56 304 |
| Reason for Fruitless and wasteful Expenditure | | |
| Included in the fruitless and wasteful expenditure is R 204 710 interest charged by SARS due to the late submission of PAYE Returns, R406 interest charged by FNB main for bank overdraft, R330 913 is amount mistakenly paid to incorrect supplier and R225 041 is mistakenly duplicate. | | |
| Fruitless and wasteful expenditure are not yet recoverable at the year end and are currently being investigated by the council which will determine recoverability and any criminal or disciplinary steps to be taken. | | |
| 34. Irregular expenditure | | |
| Opening balance | 29 040 685 | 89 954 780 |
| Add: Irregular Expenditure - current year | 3 026 690 | 1 973 000 |
| Add: Irregular expenditure incurred in current year but identified in prior year | 119 439 | 5 057 503 |
| Less: Amounts wretten-off | - | (67 944 598) |
| | 32 186 814 | 29 040 685 |
| Summary of cases for 2017/18 and 2016/17 | | |
| Current year | 19 | - |
| Prior years | 13 | 19 |
| Total number of cases | 32 | 19 |

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34. Irregular expenditure (continued)

Details of irregular expenditure – current year

| | | |
|--|---|------------------|
| Non compliance with section 116(2)(a) of the Municipal Finance Management Act, Act no. 56 of 2003 state that the accounting officer of the municipality must take all the reasonable steps to ensure that a contract or agreement procure through supply chain management policy of the municipality or municipal entity is properly enforced. | - | 214 501 |
| Non compliance with CIDB grading | - | 2 812 189 |
| The municipality have not complied with the Preferential Procurement regulation 2011 which states that "A two stage tendering process may be followed, where the first stage involve functionality and minimum threshold for local production and content and the second stage price and B BEE with the possibility of price negotiations only with the short listed tenders | - | 119 439 |
| | | 3 146 129 |

Irregular expenditure written off by council has not yet been condoned by National Treasury. We are still awaiting this by National Treasury. This, therefore means that our total irregular expenditure for the year is R29 945 303.

Irregular expenditure are not yet recoverable at the year end and are currently being investigated by the council which will determine recoverability and any criminal or disciplinary steps to be taken.

35. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Goods and services of R690 118 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

36. Related parties

Related party transactions

Rent Income from Related Parties

| | | |
|---|---|--------|
| Maphumulo Independent Electoral Council (IEC) | - | 48 586 |
|---|---|--------|

37. Prior period errors

During the year the following error was identified in the prior year annual financial statement

Study Assistance .

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37. Prior period errors (continued)

During 2016/17 financial year municipality had paid study assistance to municipal employees who applied to further their studies, then municipality classified the study assistance as loan to employee (Staff Debtor) under current assets. During 2017/18 financial year the municipality revise this classification of study assistance and the conclusion is that, study assistance is not a debtor immediately received the study assistance but is a debtor only of the employee failed to meet contractual obligation as per study assistance. therefore the municipality have to correct prior period error.

Property, Plant and Equipment

At the end of the financial reporting period a reassessment of the useful lives of assets was done. There were items of Property Plant and Equipment which had been fully depreciated but were reassessed and useful life extended. The carrying value was adjusted as a prior period error in order to depreciate the assets for the reassessed useful life. The adjustment resulted in a decrease on the 2016/17 accumulated depreciation on Property Plant and Equipment by R739 230.46 thereby increasing the carrying amount by the same amount. of this amount R437 985.77 relate to depreciation for periods prior to 2016/17 and R301 244.70 relate to 2016/17 depreciation

The correction of the error results in the following adjustments:

| Statement of Financial Position and Statement of Financial performance | Prior Period 2016/17 | Change in Income Statement | Change in Balance Sheet | Restated 2017/18 |
|--|----------------------|----------------------------|-------------------------|------------------|
| Study assistance expenses | - | 395 327 | - | 395 327 |
| Staff Debtors | 395 327 | - | (395 327) | - |
| Decrease in Accumulated depreciation Land | (7 796) | - | 7 796 | 7 796 |
| Decrease in Accumulated Depreciation Plant and Machinery | (17 015) | - | 17 015 | 17 015 |
| Decrease in Accumulated Depreciation Motor Vehicle | (454 382) | - | 454 382 | 454 382 |
| Decrease in Accumulated Depreciation Office Equipment | (225 572) | - | 225 571 | 225 571 |
| Decrease in Accumulated Depreciation IT Equipment | (34 466) | - | 34 466 | 34 466 |
| Reduction in Depreciation for 2017 | 301 245 | - | 301 245 | 301 245 |
| Decrease in 2016/17 Depreciation | 301 245 | 301 245 | - | (301 245) |
| | 258 586 | 696 572 | 645 148 | 1 134 557 |

The following accounts were re-classified from Contracted Services to the correct class. There was no effect on the accumulated surplus.

| Statement of financial performance | Prior period 2016/17 | Adjustments | Reclassifications 2016/17 | Restated 2016/17 |
|---|----------------------|-------------|---------------------------|------------------|
| Contracted services to Cleaning Services | 1 604 773 | - | 1 604 773 | - |
| Contracted Services to Security Services | 3 230 113 | - | 3 230 113 | - |
| Contracted Services to Auditors Remuneration | 1 090 155 | - | 1 090 155 | - |
| Contracted Services to Consulting and Professional Fees | 4 033 165 | - | 4 033 165 | - |
| | 9 958 206 | - | 9 958 206 | - |

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38. Employee benefit obligations

Multi Employer Retirement Fund

All fulltime employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes

All of these aforementioned funds are multiemployer plans and are subject to either a triannual, biannual or annual actuarial valuation, details which are provided below

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers..

It is therefore seen that each fund operates as a single entity and is not divided into subfunds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions.

Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions..

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

Defined Benefit Plan

Retirement Fund

The scheme is subject to a triannual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 30 June 2018 revealed that the fund had a shortfall of R 251,2 (31 March 2011: shortfall of R 382,3) million, with a funding level of 90,6% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (29,00%) should be sufficient to eradicate the shortfall in the fund by 30 June 2018. However, the basic contribution payable is 4,72% less than the required contribution rate

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority. This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 17.5% and extended by a further 3 years to 30 June 2019. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 34.22% with effect from 1 July 2012 for a period of 8 year

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund

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38. Employee benefit obligations (continued)

Long Term Services Awards

A long term service awards is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2016 may become entitled to in future, based on an actuarial valuation performed at that date

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2018 be the ONE PANGAES Expertise & Solutoons a member of the Actuarial Society of South Africa

A summary of the actuarial valuation results is as follows:

Key financial assumptions used for the purposes of the actuarial valuation

| | |
|--------------------------------------|-------|
| Discount Rate | 9,18% |
| General Salary Inflation (long term) | 6,73% |
| Net effective Discount Rate | 2,30% |

Unfunded Accrued Liability

| | | |
|----------------------------------|------------------|------------------|
| Current Portion of Liability | 138 210 | 141 041 |
| Non Current Portion of liability | 915 958 | 908 060 |
| | 1 054 168 | 1 049 101 |

Current service and interest costs

| | | |
|----------------------|----------------|----------------|
| Current service cost | 138 210 | 141 041 |
| Interest cost | 87 410 | 78 910 |
| | 225 620 | 219 951 |

The Currentservice cost reflects the additional liability that is expected to accrue in respect of inservice members' service over the corresponding year.

The interest cost represents the accrual of interest on the accrued liability allowing for benefit vesting's, over the corresponding year. This arises because all future Long Service Award benefits are one year closer to payment.

Defined Contribution Plan

Municipal Councillors Pension Fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011. The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13.75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future. As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

Provident Fund

The Kwaa-Zulu Natal Joint Municipal Provident Fund scheme is subject to a triannual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2017 by ARGEN Actuarial Solution.

The interim actuarial valuation performed as at 31 March 2017 revealed that the market value of the fund was R 3 486 236 000. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

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38. Employee benefit obligations (continued)

None of the above mentioned plans are State Plans.

39. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

| | At fair value | At amortised cost | Total |
|--|-------------------|-------------------|-------------------|
| Trade and other receivables from exchange transactions | - | 840 646 | 840 646 |
| Receivable from Non-Exchange Transaction | - | 18 421 937 | 18 421 937 |
| Cash and cash equivalents | 22 056 993 | - | 22 056 993 |
| | 22 056 993 | 19 262 583 | 41 319 576 |

Financial liabilities

| | At amortised cost | Total |
|---|-------------------|----------------|
| Other financial liabilities | 849 138 | 849 138 |
| Trade and other payables from exchange transactions | - | - |
| | 849 138 | 849 138 |

2017

Financial assets

| | At fair value | At amortised cost | Total |
|--|-------------------|-------------------|-------------------|
| Trade and other receivables from exchange transactions | - | 1 729 180 | 1 729 180 |
| Consumer debtors | - | 14 235 844 | 14 235 844 |
| Cash and cash equivalents | 32 588 258 | - | 32 588 258 |
| | 32 588 258 | 15 965 024 | 48 553 282 |

Financial liabilities

| | At amortised cost | Total |
|-----------------------------|-------------------|-----------|
| Other financial liabilities | 2 861 023 | 2 861 023 |

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40. Contingencies

Case 1.

Litigation is in the process between the municipality and Only If Management CC under the case number 10108/2013 . Plaintiff claims to have been appointed by the Municipality to do refuse removal within the Maphumulo area of jurisdiction. The claim is for R8 609 993.32

Case 2

Maphumulo Municipality / Sibgem Management & Consulting. Plaintiff claims to have been appointed by the Municipality to install electricity in wards 3, 4 and 8. The claim is for R1 864 497.11.

[State the fact, that information of contingent liabilities and assets are required but not disclosed because it is not practicable to do so].

41. Risk management

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.

Rhe municipality would be able to pay all obligation due within 12 months as listed in the face of the balance sheet..

Credit risk

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

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

42. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of 239 584 743 and that the municipality's total assets exceed its liabilities by 239 584 743.

The municipality's current liabilities are secured against the municipal current assets as it can be seen that current assets are greater than current liabilities and there is a surplus of R9 056 303 (R46 303 258 current assets less R37 246 955 current liabilities). This shows a increase compared to last financial year where was a surplus of R8 125 849.

Included in the current liabilities are unspent conditional grants of R12 591 044 that always need to be cash backed. included in the unspent grants amount is R12 491 044 from COGTA received long time ago. Current Assets includes VAT receivables of R4 301 512 which would be received from SARS during next financial year, Consumer debtors include Government debtors of R6 397 180 which there is no doubt that amount would be receive during next financial year.

The going concern of the municipality might be negatively effected should any or all of its debtors fail to settle their accounts and the municipality end up relying on its cash and cash equivalents of R22 056 993 to settle the current liability of R37 246 955.

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee

475 000

500 000

There is no adjustment event after reporting date.

Maphumulo Local Municipality

(Registration number KZN294)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

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

Event After Reporting Date

Audit fees

Amount paid - current year

22 255

-

They is no audit fee amount were outstanding at the end of the year

PAYE and UIF

Amount paid - current year

2 576 000

2 377 356

There is no outstanding PAYE and UIF at the financial year end

Pension and Medical Aid Deductions

Amount paid - current year

2 553 604

3 324 715

R447 124 of Pension and Medical aid were outstanding at as at the financial year end

VAT

VAT receivable

4 301 512

1 332 556

VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

There were no Councillors in arrears for more than 90 days at any time during the year ended 30 June 2018:

Appendix A

Schedule of external loans as at 30 June 2018

| Loan Number | Redeemable | Balance at Friday, 30 June 2017 | Received during the period | Redeemed written off during the period | Balance at Saturday, 30 June 2018 | Carrying Value of Property, Plant & Equip Rand | Other Costs in accordance with the MFMA Rand |
|---|------------|---------------------------------|----------------------------|--|-----------------------------------|--|--|
| | | Rand | Rand | Rand | Rand | Rand | Rand |
| Loan Stock | | | | | | | |
| First National Bank | | 2 418 768 | - | - | 2 418 768 | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | 2 418 768 | - | - | 2 418 768 | - | - |
| Structured loans | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Funding facility | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Development Bank of South Africa | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |

Appendix A

Schedule of external loans as at 30 June 2018

| Loan Number | Redeemable | Balance at Friday, 30 June 2017 | Received during the period | Redeemed written off during the period | Balance at Saturday, 30 June 2018 | Carrying Value of Property, Plant & Equip | Other Costs in accordance with the MFMA |
|------------------------|------------|---------------------------------|----------------------------|--|-----------------------------------|---|---|
| | | Rand | Rand | Rand | Rand | Rand | Rand |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Bonds | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Other loans | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Lease liability | | | | | | | |
| ABSA Finance Lease | | 671 662 | (671 662) | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | 671 662 | (671 662) | - | - | - | - |
| Annuity loans | | | | | | | |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |

Appendix A

Schedule of external loans as at 30 June 2018

| Loan Number | Redeemable | Balance at Friday, 30 June 2017 | Received during the period | Redeemed written off during the period | Balance at Saturday, 30 June 2018 | Carrying Value of Property, Plant & Equip | Other Costs in accordance with the MFMA |
|----------------------------------|------------|---------------------------------|----------------------------|--|-----------------------------------|---|---|
| | | Rand | Rand | Rand | Rand | Rand | Rand |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Government loans | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| Total external loans | | - | - | - | - | - | - |
| Loan Stock | | 2 418 768 | - | - | 2 418 768 | - | - |
| Structured loans | | - | - | - | - | - | - |
| Funding facility | | - | - | - | - | - | - |
| Development Bank of South Africa | | - | - | - | - | - | - |
| Bonds | | - | - | - | - | - | - |
| Other loans | | - | - | - | - | - | - |
| Lease liability | | 671 662 | (671 662) | - | - | - | - |
| Annuity loans | | - | - | - | - | - | - |
| Government loans | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | - | - | - | - | - | - |
| | | 3 090 430 | (671 662) | - | 2 418 768 | - | - |