

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015
3. Inventories				
Consumable stores	4 636 017	7 322 970	4 636 017	7 322 970
Maintenance materials	6 410 189	6 673 837	6 410 189	6 673 837
Water	477 849	429 661	477 849	429 661
	11 524 055	14 426 468	11 524 055	14 426 468

The economic entity has identified and measured all inventory in terms of GRAP 12 for the financial year ended 30 June 2016. The balances of the inventories have accordingly been restated retrospectively.

The cost of water production for the year amounted to R1,97 per kilolitre (2015: R1,87 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

4. Long-term receivables

At amortised cost

Sundry Loans	240 668	310 271	240 668	310 271
Sundry loans are made of recoveries that are receivable from employees as results of damages to municipality belongings and employee has acknowledged the negligence. The sundry loans are not secured and are interest free. The average term of these loans 1 to 5 years.				
Relocation costs	-	12 228	-	12 228
Relocation costs are interest free and are recoverable from employee when the agreed terms, of employment contract are not honoured. The average term of this loans are 3 years. During the current financial period there were no relocation costs receivable.				
	240 668	322 499	240 668	322 499
Impairments	(127 709)	-	(127 709)	-
	112 959	322 499	112 959	322 499

Non-current assets

At amortised cost	101 365	270 644	101 365	270 644
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Current assets

At amortised cost	11 594	51 855	11 594	51 855
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5. Operating lease asset (accrual)

Current assets	46 289	28 410	46 289	28 410
Current liabilities	(108 315)	(74 616)	(55 585)	(50 643)
	(62 026)	(46 206)	(9 296)	(22 233)

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

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	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015
5. Operating lease asset (accrual) (continued)				
Operating lease asset				
Balance at beginning of year	28 410	57 450	28 410	57 450
Operating lease revenue recorded	1 111 769	968 235	1 111 769	968 235
Operating lease revenue from smoothing	(1 093 890)	(997 275)	(1 093 890)	(997 275)
Total operating lease assets	46 289	28 410	46 289	28 410

Leasing Arrangements

The Municipality as Lessor:

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Amounts receivable under operating leases

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

Up to 1 year	227 621	443 024	227 621	443 024
2 to 5 years	674 223	901 844	674 223	901 844
	901 844	1 344 868	901 844	1 344 868

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been a decrease in current year income of R46 289 (2015: R28 410).

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

Operating lease accrual

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Balance at beginning of year	69 605	68 687	50 642	59 991
Operating lease expenses recorded	2 414 935	1 670 175	1 885 003	1 836 763
Operating lease payments from smoothing	(2 376 225)	(1 669 257)	(1 880 060)	(1 846 112)
	108 315	69 605	55 585	50 642

Leasing arrangements

The Municipality as Lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

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5. Operating lease asset (accrual) (continued)

Amounts payable under operating lease

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Within one year	1 729 191	1 319 516	436 369	827 632
In the second to third years, inclusive	1 953 228	1 001 582	552 211	415 667
Over three years	679 488	751 357	-	165 443
	4 361 907	3 072 455	988 580	1 408 742

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	2 414 935	1 670 175	1 885 003	1 836 763
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The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

- (i) The equipment shall remain the property of the lessor.
- (ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.
- (iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

6. Receivables from non-exchange transactions

Payments made in advance	9 740 266	14 169 625	9 740 266	14 169 625
Government grants and subsidies	-	24 842 210	-	24 842 210
Municipal grants	-	455 934	-	-
Insurance claims	-	122 367	-	122 367
Municipal entities	-	50 979	-	50 979
Sundry deposits	1 604 432	808 432	1 604 432	808 432
Sundry debtors	15 786 685	10 510 875	15 770 685	10 510 875
	27 131 383	50 960 422	27 115 383	50 504 488

The average credit period for government grants and subsidies is dependent on the government department involved and the nature of the claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Insurance claims are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables.

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Figures in Rand	2016	2015	2016	2015

6. Receivables from non-exchange transactions (continued)

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 7 041 696 (2015: R 10 737 228) were past due but not impaired.

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

3 months past due	7 041 696	10 737 228	7 041 696	10 737 228
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	2 865 549	8 918 964	2 865 549	8 918 964
Provision for impairment	410 296	-	410 296	-
Amounts written off as uncollectible	-	(6 053 415)	-	(6 053 415)
	3 275 845	2 865 549	3 275 845	2 865 549

The Provision for Impairment on receivables exists predominantly due to the possibility that these amounts may not be recovered. The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to most of these being sundry in nature.

7. VAT receivable

VAT	36 117 732	-	36 461 097	-
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VAT for Municipality and South Coast Development Agency is payable on the payments basis. Once cash has been received from customers/receivables, VAT is payable over to SARS. However Ugu South Coast Tourism VAT is payable on the invoice basis. When the invoice is raised an amount of VAT is payable to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

8. Receivables from exchange transactions

Gross balances

Water rates	55 311 968	39 448 907	55 311 968	39 448 907
Water	202 422 943	159 112 650	202 422 943	159 112 650
Sewerage	61 686 021	61 408 041	61 686 021	61 408 041
Other trade	6 207 442	6 670 395	5 553 194	5 466 626
	325 628 374	266 639 993	324 974 126	265 436 224

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
8. Receivables from exchange transactions (continued)				
Less: Allowance for impairment				
Water rates	(48 819 652)	(24 184 196)	(48 819 652)	(24 184 196)
Water	(166 659 305)	(102 222 236)	(166 659 305)	(102 222 236)
Sewerage	(47 066 190)	(40 239 667)	(47 066 190)	(40 239 667)
Other trade	(3 732 107)	(3 732 107)	(3 732 107)	(3 732 107)
	(266 277 254)	(170 378 206)	(266 277 254)	(170 378 206)
Net balance				
Water rates	6 492 316	15 264 711	6 492 316	15 264 711
Water	35 763 638	56 890 414	35 763 638	56 890 414
Sewerage	14 619 831	21 168 374	14 619 831	21 168 374
Other trade	2 475 335	2 938 288	1 821 087	1 734 519
	59 351 120	96 261 787	58 696 872	95 058 018
Water rates				
Current (0 -30 days)	1 009 332	3 029 748	1 009 332	3 029 748
31 - 60 days	9 897	77 718	9 897	77 718
61 - 90 days	11 460	57 418	11 460	57 418
+90 days	5 461 627	12 099 827	5 461 627	12 099 827
	6 492 316	15 264 711	6 492 316	15 264 711
Water				
Current (0 -30 days)	10 891 693	14 119 066	10 891 693	17 163 046
31 - 60 days	3 904 049	4 408 069	3 904 049	4 408 069
61 - 90 days	2 330 862	3 483 731	2 330 862	3 483 731
+90 days	18 637 034	34 879 548	18 637 034	31 835 568
	35 763 638	56 890 414	35 763 638	56 890 414
Sewerage				
Current (0 -30 days)	6 983 017	8 446 128	6 983 017	8 446 128
31 - 60 days	1 820 177	2 525 068	1 820 177	2 525 068
61 - 90 days	698 929	2 377 970	698 929	2 377 970
+90 days	5 117 708	7 819 208	5 117 708	7 819 208
	14 619 831	21 168 374	14 619 831	21 168 374
Other trade				
Current (0 -30 days)	654 526	1 128 917	-	-
+90 days	1 820 809	1 809 371	1 821 087	1 734 519
	2 475 335	2 938 288	1 821 087	1 734 519
Reconciliation of allowance for impairment				
Balance at beginning of the year	(170 378 206)	(94 649 959)	(170 378 206)	(94 649 959)
Contributions to allowance	(95 961 516)	(85 629 566)	(95 961 516)	(85 629 566)
Debt impairment written off against allowance	62 468	9 901 319	62 468	9 901 319
	(266 277 254)	(170 378 206)	(266 277 254)	(170 378 206)

No receivables from exchange transactions have been pledged as collateral for liabilities of the municipality.

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
9. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Bank balances	63 349 801	50 603 362	43 554 709	36 989 962
Short-term deposits	215 203 330	222 079 555	215 203 330	222 079 555
Other cash and cash equivalents	13 892	18 707	4 967	4 910
Bank overdraft	(2 306 145)	(26 152 189)	(2 306 145)	(26 152 189)
	276 260 878	246 549 435	256 456 861	232 922 238
Current assets	278 567 023	272 701 623	258 763 006	259 074 427
Current liabilities	(2 306 145)	(26 152 189)	(2 306 145)	(26 152 189)
	276 260 878	246 549 434	256 456 861	232 922 238

For the purposes of the Statement of Financial Position and the Cash Flow Statement, cash and cash equivalents include cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Long term (AAA) Short-term (F1+)	111 228 408	60 777 570	91 468 011	47 164 170
Long-term (AA) Short-term (F1+)	125 018 578	120 018 266	125 018 578	120 018 266
Long-term (A) Short-term (F1)	40 000 000	65 000 000	40 000 000	65 000 000
Other	-	734 892	-	734 892
	276 246 986	246 530 728	256 486 589	232 917 328

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents.

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

9. Cash and cash equivalents (continued)

The economic entity had the following bank accounts

Bank Accounts for Municipality	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA BANK - Port Shepstone - Account Number 406 668 6529 (Primary Bank Account):	726 453	83 756	106 422	456 884	(16 321 139)	5 568
ABSA BANK - Port Shepstone - Account Number 406 668 6472 (General Bank Account):	5 176 442	3 223 171	(1 522 481)	(2 306 145)	(5 017 457)	(3 343 474)
ABSA BANK - Port Shepstone - Account Number 406 668 6294 (Collection Account):	798 319	83 316	897 611	774 383	59 381	873 676
ABSA BANK - Port Shepstone - Account Number 406 671 0647 (Consumer Deposits Bank Account):	2 173 512	740 365	2 874 066	748 577	(66 618)	654 262
ABSA BANK - Port Shepstone - Account Number 406 660 3763 (Salaries Account):	118 612	(56 150)	259 244	118 612	(56 150)	140 753
ABSA BANK - Port Shepstone - Account Number 406 757 0977 (Sanlam Group Life Account):	4 243 781	4 165 110	4 148 944	4 243 781	4 165 110	4 114 804
ABSA BANK - Port Shepstone - Account Number 406 668 6367 (MIG Project Account):	50 896	(4 690 825)	120 005	50 896	(4 690 825)	120 005
ABSA BANK - Port Shepstone - Account Number 407 187 0797 (Disaster Account):	-	-	199 600	-	-	199 600
ABSA BANK - Port Shepstone - Account Number 407 198 0239 (Market Account):	-	-	371 245	-	-	371 245
ABSA BANK - Port Shepstone - Account Number 407 626 7341 (EFF Bank Account):	-	-	1 640	-	-	1 640
ABSA BANK - Port Shepstone - Account Number 407 755 1917 (Conditional Grants Account):	37 161 575	32 765 471	145 892 168	37 161 575	32 765 471	145 892 168
Bank Accounts for Ugu South Coast Tourism						
ABSA BANK - KZN Public Sector Branch, Account Number 407 403 6586	274 351	113 435	368 806	283 445	125 460	371 753
ABSA BANK - KZN Public Sector Branch, Account Number 923 286 9178	15 414 065	13 319 582	10 873 801	15 414 065	13 319 582	10 873 801
ABSA Rent Guarantee	38 334	36 000	44 478	38 334	36 000	44 478
Bank Accounts for South Coast Development Agency						
ABSA BANK - Port Shepstone - Account Number 405 752 5673 (Primary Bank Account)	8 485	132 359	113 359	8 485	132 359	113 359
Investec Call Deposits	4 050 763	-	1 616 158	4 050 763	-	1 616 158
Total	70 235 588	49 915 590	166 365 066	61 043 655	24 451 174	162 049 796

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

10. Investment property

Economic entity	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	29 500 000	-	29 500 000	29 403 251	-	29 403 251

Controlling entity	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	29 500 000	-	29 500 000	29 403 251	-	29 403 251

The Municipality has classified the Ugu Fresh Produce Market, and Ugu Sports & Leisure Center, as investment property in terms of its asset management policy.

Ugu Fresh Produce Market is situated at Bhobhoyi – in the Port Shepstone Town Planning Scheme, lot no 3249 and measures approximately 85 000 square metres. The market offers 18 vendor stalls for retailers, refrigerated storage, a wholesale/agents sales hall, a state-of-the-art multi-purpose ripening facility, an office block, ample parking space, a taxi rank and plenty ablution facilities. The whole facility is secured with 24-hour security guards.

Ugu Sports and Leisure Center is situated on portion 7 of the Farm Burliegh ET 5100. The Sports and Leisure is consist of Main Building, Indoor Sports Hall and Sports Fields.

The municipality uses the fair value model to value its investment properties. For the year ending 30 June 2016 a fair value assessment was undertaken by Pierre Rynners Valuers. The valuation methodology applied is the income capitalisation approach, where by the net rental income is capitalised at an appropriate rate, in order to arrive at an estimate of market value. A fair value adjustment has been affected in the financial statements valuation.

Reconciliation of investment property - Economic entity - 2016

	Opening balance	Fair value adjustments	Total
Investment property	29 403 251	96 749	29 500 000

Reconciliation of investment property - Economic entity - 2015

	Opening balance	Transfers received	Fair value adjustments	Total
Investment property	14 600 000	19 003 251	(4 200 000)	29 403 251

Reconciliation of investment property - Controlling entity - 2016

	Opening balance	Fair value adjustments	Total
Investment property	29 403 251	96 749	29 500 000

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Figures in Rand	2016	2015	2016	2015

10. Investment property (continued)

Reconciliation of investment property - Controlling entity - 2015

	Opening balance	Transfers received	Fair value adjustments	Total
Investment property	14 600 000	19 003 251	(4 200 000)	29 403 251
Fair value of investment properties	29 500 000	29 403 251	29 500 000	29 403 251

Pledged as security

No investment properties have been pledged as collateral for liabilities of the municipality.

Revenue and expenditure disclosed in the Statement of Financial Performance include the following:

Rental revenue earned from Investment Property	1 099 193	1 283 662	1 099 193	1 283 662
Direct operating expenses	(1 103 654)	(784 341)	(1 103 654)	(784 341)
	(4 461)	499 321	(4 461)	499 321

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	2016	2015	2016	2015

11. Property, plant and equipment

Economic entity	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	198 431 452	(35 830 266)	162 601 186	181 963 836	(33 381 441)	148 582 395
Infrastructure	8 365 813 957	(4 579 870 818)	3 785 943 139	8 036 958 547	(4 398 542 316)	3 638 416 231
Other property, plant and equipment	156 851 787	(109 000 247)	47 851 540	143 913 506	(101 614 548)	42 298 958
Total	8 721 097 196	(4 724 701 331)	3 996 395 865	8 362 835 889	(4 533 538 305)	3 829 297 584

Controlling entity	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	198 431 452	(35 830 266)	162 601 186	181 963 836	(33 381 441)	148 582 395
Infrastructure	8 365 813 957	(4 579 870 818)	3 785 943 139	8 036 958 547	(4 398 542 316)	3 638 416 231
Other property, plant and equipment	154 736 919	(108 328 257)	46 408 662	142 500 146	(100 909 472)	41 590 674
Total	8 718 982 328	(4 724 029 341)	3 994 952 987	8 361 422 529	(4 532 833 229)	3 828 589 300