

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 2014

40. Financial Instruments disclosure

Categories of financial instruments

2015

Financial assets

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
Relocation loans	-	2 661	2 661
Sundry loans	-	305 361	305 361
Receivables from Exchange Transactions	-	-	-
Sewerage	-	50 183 184	50 183 184
Other trade receivables	-	1 734 518	1 734 518
Water	-	110 186 253	110 186 253
Water rates	-	18 583 628	18 583 628
Receivables from Non-exchange Transactions	-	-	-
Payments made in advance	-	4 353 985	4 353 985
Government subsidy claims	-	11 562 424	11 562 424
Insurance claims	-	122 367	122 367
Municipal entities	-	50 979	50 979
Sundry Deposits	-	808 432	808 432
Sundry Debtors	-	342 497 865	342 497 865
Cash and Cash Equivalents	-	-	-
Call deposits	36 344 664	-	36 344 664
Notice deposits	-	185 734 892	185 734 892
Bank balances	15 855 230	-	15 855 230
Cash floats and advances	4 910	-	4 910
Current-portion of Long-term Receivables	-	-	-
Relocation loans	-	9 567	9 567
Sundry loans	-	3 600	3 600
	52 204 804	726 139 716	778 344 520

Financial liabilities

In accordance with GRAP 104.13 the financial liabilities of the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term Liabilities	-	-	-
Annuity Loans	-	163 440 870	163 440 870
Current Liabilities	-	-	-
Trade and other payables from exchange transactions	-	156 441 249	156 441 249
Finance lease liability	-	3 063 785	3 063 785
Bank overdraft	5 017 457	-	5 017 457
	5 017 457	322 945 904	327 963 361

2014

Financial assets

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014	
Financial Instruments disclosure (continued)			
Relocation loans	-	7 111	7 111
Sundry loans	-	293	293
Receivables from Exchange Transactions	-	-	-
Sewerage	-	41 051 351	41 051 351
Other trade receivables	-	1 737 876	1 737 876
Water	-	76 727 859	76 727 859
Water rates	-	12 190 842	12 190 842
Receivables from Non-exchange Transactions	-	-	-
Payments made in advance	-	1 920 995	1 920 995
Government subsidy claims	-	236 950	236 950
Insurance claims	-	122 367	122 367
Municipal entities	-	66 846	66 846
Sundry deposits	-	893 075	893 075
Sundry debtors	-	549 836	549 836
Cash and Cash Equivalents	-	-	-
Call deposits	7 535 227	-	7 535 227
Notice deposits	-	757 514	757 514
Bank balances	152 373 720	-	152 373 720
Cash floats and advances	4 910	-	4 910
Current-portion of Long-term Receivables	-	-	-
Relocation loans	-	28 442	28 442
Sundry loans	-	3 600	3 600
	159 913 857	136 294 957	296 208 814

Financial liabilities

	At fair value	At amortised cost	Total
Annuity loans	-	180 426 363	180 426 363
Finance lease liability	-	3 063 785	3 063 785
Trade and other payables from exchange transactions	-	133 948 939	133 948 939
Bank overdraft	3 343 474	-	3 343 474
Finance lease liability	-	3 361 417	3 361 417
	3 343 474	320 800 504	324 143 978

Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments:

Long-term investments

The fair value of some investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015

2014

Financial instruments disclosure (continued)

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other financial assets and liabilities

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2015, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year.

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in note 17, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed in Note 3 and the statement of changes in net assets.

Gearing ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
Financial instruments disclosure (continued)		
Net debt to equity ratio	3.96%	6.71%
Debt	398 027 517	422 970 708
Cash and cash equivalents	(232 922 238)	(157 327 897)
Net Debt	165 105 279	265 642 811
Equity	4 171 443 876	3 961 485 248

Debt is defined as long and short term Liabilities, as detailed in Note 17.

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

Financial risk management objectives

The accounting officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IASs mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The directorate: Treasury monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these annual financial statements.

Significant risks

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Risk and exposures are disclosed as follows:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 2014

Financial instruments disclosure (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the annual financial statements.

Ultimate responsibility for liquidity risk management rests with the council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 42 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	185 715 629	-	-	-	-	185 715 629
Variable interest rate instruments	18 915 505	-	-	-	-	18 915 505
Fixed interest rate instruments	3 063 785	-	-	-	-	3 063 785
	207 694 919	-	-	-	-	207 694 919

30 June 2014	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	140 377 050	-	-	-	-	140 377 050
Variable interest rate instruments	3 281 879	-	-	-	-	3 281 879
Fixed interest rate instruments	13 014 267	13 789 267	27 578 533	88 053 182	176 338 319	318 773 568
	156 673 196	13 789 267	27 578 533	88 053 182	176 338 319	462 432 497

The following table details the municipality's expected maturity for its non derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

30 June 2015	6 Months or less	6 - 12 Years	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	154 045 729	-	-	-	-	154 045 729
Variable interest rate instruments	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	170 633 398	-	-	-	-	170 633 398

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand		2015	2014			
Financial Instruments disclosure (continued)						
30 June 2014	6 Months or less	6 - 12 Years	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	224 435 449	-	-	-	-	224 435 449
Variable interest rate instruments	160 666 976	-	-	-	-	160 666 976
Fixed interest rate instruments	732 428	-	-	-	-	732 428
	385 834 853	-	-	-	-	385 834 853
30 June 2015	6 Months or less	6 - 12 Years	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	224 435 449	-	-	-	-	224 435 449
Variable interest rate instruments	160 666 976	-	-	-	-	160 666 976
Fixed interest rate instruments	732 428	-	-	-	-	732 428
	385 834 853	-	-	-	-	385 834 853
30 June 2014	6 Months or less	6 - 12 Years	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	141 538 885	-	-	-	-	141 538 885
Variable interest rate instruments	71 038 800	-	-	-	-	71 038 800
Fixed interest rate instruments	708 687	-	-	-	-	708 687
	213 286 372	-	-	-	-	213 286 372

The municipality has access to financing facilities, the total unused amount which is R9,268 million at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio, within 20-25% limits increasing it to 25%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.

Effective Interest and repricing analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	185 734 892	-	-	-	-	185 734 892
Variable Rate Instruments	-	-	-	-	-	185 734 892
Call deposits	36 344 664	-	-	-	-	36 344 664
	222 079 556	-	-	-	-	222 079 556
30 June 2014	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	708 687	-	-	-	-	708 687
Call deposits	8 292 741	-	-	-	-	8 292 741
Bank balances and cash	152 374 235	-	-	-	-	152 374 235
	-	-	-	-	-	-

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015

2014

Financial Instruments disclosure (continued)

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

Investments/bank, cash and cash equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk.

Trade and other receivables

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of receivables whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of council's credit control and debt collection policy.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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Financial instruments disclosure (continued)

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

1. The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property
2. A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount
3. The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA
4. The requirement of a deposit for new service connections, serving as guarantee;
5. Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer

Long-term receivables and other debtors are individually evaluated annually at statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

Counterparty and Location

Ukusa River Estate Development	1 273 600	656 512
GJ Crookes Hospital	-	582 323
Ithala Developments Finance Corporation	734 982	563 852
San Lameer Estate Management	-	498 633
SA Botlink (Pty) Ltd	-	436 951
Smithchem (Pty) Ltd	978 989	-
Blue Marlin Hotel	950 284	-
Lourens De Jager Coetzer	680 477	-
	4 618 332	2 738 271

Except as detailed in the following table, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Investments	200	100
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Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
Financial instruments disclosure (continued)		
Long-term receivables	321 188	39 446
Consumer debtors	264 231 971	225 155 966
Other debtors	1 204 252	9 769 194
Bank, cash and cash equivalents	259 074 427	160 671 371
	524 832 038	395 636 077

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer debtors		
Household	77,00 %	75,00 %
Industrial/Commercial	18,00 %	17,00 %
National and Provincial Government	4,00 %	5,00 %
Other debtors	1,00 %	3,00 %
	100,00 %	100,00 %

Bank and cash balances		
ABSA Bank	47 164 171	156 585 295
First National Bank of SA Limited	45 018 266	17 465
Nedbank	30 000 000	-
Investec Bank	65 000 000	-
Ithala Bank	734 892	720 227
Standard Bank	45 000 000	-
Cash equivalents	4 910	4 910
	232 922 239	157 327 897

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015

2014

41. Multi-employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

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.

Defined benefits schemes

Retirement fund

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R251,5 (31 March 2011: shortfall of R382,3) million, with a funding level of 82,0% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) was expected to eradicate the shortfall in the fund by 31 March 2015. 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 15,35% 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 15,85% (Total employer contribution of 34,22%) and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 15,85% with effect from 1 July 2012 for an indefinite period of time. 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. It is intended that the Fund merge with the Superannuation Fund in the near future.

Superannuation fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R270,0 (31 March 2011: R549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% of pensionable salaries to meet the shortfall within the 8 year period provided for in the scheme. It was expected that the deficit will be fully funded by 2020.

This surcharge is payable until 31 March 2020. It is necessary that the basic employer contribution be increased by 3,63% to 21,63% and the surcharge be increased to 9,5% and extended by a further 8 years to 31 March 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for an indefinite period of time.

It is intended that the fund merge with the retirement fund in the near future.

Defined contribution schemes

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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41. Multi-employer retirement benefit information (continued)

Municipal councillors pension fund.

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 31 March 2012.

The statutory valuation performed as at 30 June 2011 revealed that the market value of the fund was R1 446,8 (30 June 2010: R1 446,8) million. The contribution rate paid by the members (13,75%) and Council (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 2014.

Provident fund

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions 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.

42. Commitments

Authorised capital expenditure

Approved and contracted for:-

• Infrastructure	638 625 379	661 537 381
• Other	7 308 871	21 248 606
	645 934 250	682 785 987

Approved but not yet contracted for:-

• Infrastructure	60 641 465	27 066 730
• Other	6 050 023	-
	66 691 488	27 066 730

Total capital commitments

Already contracted for but not provided for	645 934 250	682 785 987
Not yet contracted for and authorised by accounting officer	66 691 488	27 066 730
	712 625 738	709 852 717

This expenditure will be financed from:

Government Grants	699 266 844	688 604 111
Own Resources	13 358 894	21 248 606
	712 625 738	709 852 717

Total commitments

Total commitments

Authorised capital expenditure	712 625 738	709 852 717
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Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
43. Contingencies		
Guarantees:		
i) Hibiscus Coast Municipality: The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality.	10 000	10 000
(ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality.	2 852 000	2 852 000
(iii) South African Post office: The municipality issued a bank guarantee in favour of South African Post office.	200 000	200 000
	3 062 000	3 062 000
Powers and functions		
(i) Environmental Health: It has come to the attention of management that a local municipality has indicated its intention of raising a claim against the district to recover expenses incurred in respect of the Environmental Health Powers and Functions. Negotiations have been entered into in this regard between the municipalities. Currently management is of the opinion that there are no legal grounds to entertain a possible claim.	5 075 295	5 075 295
ii) Water and Sanitation: With the takeover of Water and Sanitation Schemes from the local municipalities in 2004, certain assets were funded through internal funding which these local municipalities are claiming from the district. Currently management is of the opinion that there are no legal grounds to entertain the possible claims.	7 871 971	7 871 971
	12 947 266	12 947 266
Court proceedings:		
(i) Dispute on Expenditure Claimed: Council was involved in a dispute with Sublime Marketing (the applicant), where the applicant is claiming an amount of R227 142, with interest estimated at R192 432, in respect of functions performed on behalf of Eziqoleni Municipality / Horseshoe Farm. The Municipality entered an Appearance to Defend the matter and was awaiting the enrollment of the matter for trial. The Municipality has since been advised that the Plaintiff has abandoned the Claim and their attorneys have closed their file. Municipal attorney has also been instructed to close file on this matter.	419 574	419 574
(ii) Alleged Breach of Contract: Council has been involved in a court case with Thumbprint Events Management, where it is alleged that the Municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the Municipality. The Municipality is defending this action and awaits a court date. The total claim is valued at R875 258.46 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events (excluding VAT). The Municipality is currently negotiating a settlement with the Applicant and the matter is expected to be finalised by 30 September 2015.	875 248	875 248
(iii) Dispute on Damage Caused to Farmland: The Municipality has been issued with a Court Order instructing it to immediately cease the nuisance caused on Mr Meuller's property at Lot 2007 Uvongo through the discharge of final sewer effluent into a tributary of the Uvongo River on his land, thereby causing a ravine on his land and rendering it unfarmable to him. He is further claiming for damages caused through non-useability of his land, damages for loss of profit as a result of the damage caused to his property and the subdivision and transfer of the damaged land to the Municipality. The Municipality has instructed Engineers implementing the project to make an offer to purchase to the Applicant for damaged land. The Municipality awaits the response of the Plaintiff.	100 000	100 000
(iv) Cession Agreement: JZZ Engineering is claiming from the municipality as per a prescribed claim against a cession agreement entered into. The possible liability amounts to R153 900, plus costs. The Plaintiff has formally withdrawn from the matter. The Municipality is pursuing costs incurred from Plaintiff.	-	153 900
(v) Cession Agreement: Premier Attraction is claiming from the municipality for allegedly not honouring a cession agreement in their favour to the value of R122 682.24 plus costs. The Municipality is awaiting the matter to be set down for a Trial date in the High Court.	122 682	122 682

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
43. Contingencies (continued)		
(vi) Dispute on Expenditure Paid to Member of Joint Venture: Municipality is involved in a matter with Gigaba Properties where applicant is claiming that the Municipality wrongly paid one member of a joint venture which had been awarded a contract by the Municipality. The Municipality is defending the matter and awaits a trial date. The claim against the Municipality is in an amount of R6 659 281.50 plus 15,5% interest on R16 573 818.86 from February 2009 until payment and 15,5% interest on R3 424 023.94 from October 2008 until payment. The Municipality has become aware of the death of the Plaintiff, and since no action is forthcoming from the Estate, application has been made to the court to strike the matter off the roll.	6 659 282	6 659 282
The Municipality is enjoined with Umzumbe Municipality in litigation with MP & RV Conco regarding alleged illegal encroachment by the Municipalities. The applicants are wanting rehabilitation of their land. Costs are not yet determinable.	-	1
	8 176 786	8 330 687
Current objections against SCM process:		
Ugu-07-1201-2012: Value of R4 461 847.00	-	4 461 847
Ugu-07-1242-2013: Value of R61 325 743.00	61 325 743	61 325 743
Ugu-07-1255-2013: Value of R34 420 883.00	-	34 420 883
	61 325 743	100 208 473
Contingent assets		
i) Legal claim against Ingqondo and Nzwakele Construction for alleged fraud and undue enrichment from contracts awarded by the municipality.	-	4 714 038

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015

2014

44. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
100% Owned Company (Ugu District Municipal Entity)	Ugu South Coast Tourism (Pty) Ltd
100% Owned Company (Ugu District Municipal Entity)	Hibiscus Coast Development Agency
Z. Mkhwanazi (Ugu DM Employee)	Budding Trade 1180 CC
ZI Ntlangula (Ugu DM Employee)	Thutong Training & Development
MC Makiwane (Ugu DM Employee)	Ntlangano Projects CC
NP Gumbi (Ugu DM Employee)	Skhunyana Training Consultants
NP Gumbi (Ugu DM Employee)	Zibi-Mvelo Holdings (Pty) Ltd
P. Moodley (Ugu DM Employee)	Auto Junction Fitment Centre
N. Thabede (Ugu DM Employee)	Mkhaba's Trading and Projects
TB Mhlongo (Ugu DM Employee)	Victorson Building CC
CV Elliot (Audit committee member)	Shelly Travel CC
N. Sihlongonyane (Ugu DM Employee)	Zamori 318 (Pty) Ltd
Henderson (Ugu Councillor)	Barry Botha & Breytenbach Inc.
X. Zuma (Ugu DM Employee)	Ziyanda Consulting
NY Yeni (Ugu DM Employee)	Eyakini Trading CC
A. Maku (Ugu DM Employee)	MJ Tractor Repairs & Sales
SML Mbele (Ugu DM Employee)	Sandile Dlomo Inc.
ZR Mbhele (Ugu DM Employee)	Ntombiyasekhaya Trading Enterprise
Mhlana NE (Ugu DM Employee)	Wasteng (Pty) Ltd
ZR Mbhele (Ugu DM Employee)	Mlenzana Catering Primary Co-operative Limited

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

Related party transactions

Purchases from related parties

Budding Trade 1180 CC	-	2 500
Ugu South Coast Tourism (Pty) Ltd	11 043 743	10 517 850
Hibiscus Coast Development Agency	5 000 000	-
Thotong Training & Development	-	15 000
Ntlangano Projects CC	2 020 625	6 629 387
Skhunyana Training Consultants	-	1 226 816
Zibi-Mvelo Holdings (Pty) Ltd	-	191 400
Auto Junction Fitment Centre	773 653	258 548
Mkhaba's Trading and Projects	-	241 828
Victorson Building CC	-	447 666
Zamori 318 (Pty) Ltd	359 919	43 570
Barry Botha & Breytenbach Inc.	105 550	74 200
Sandile Dlomo Inc.	556 424	160 528
Ziyanda Consulting	10 494 182	-
Eyakini Trading CC	155 580	-
MJ Tractor Repairs and Sales	732 317	-
Ntombiyasekhaya Trading Enterprise	24 000	-
Mlenzana Catering Primary Co-operative Limited	24 000	-
	31 289 993	19 809 293

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

45. Prior period errors

Corrections were made during the previous financial years. Details of the corrections are described below:

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

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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45. Prior period errors (continued)

Post Employee Benefits

Reported Amount	24 268 971
Correction of error	(10 075 651)
Restated Closing Balance	14 193 320

The prior year error relates to Post Employment Benefits for Actuarial Valuation of the Post-employment Medical subsidy liability. Misstatement was made by the Actuaries in the calculation of the Post-employment benefits.

Payables

Reported Amount	133 948 941
Correction of error	(7 090 344)
Restated Closing Balance	126 858 597

The prior year error relates to Sundry Accruals that were not accrued in the 2013/14 financial period.

Provisions

Report Amount	18 934 337
Correction of error	(2 534 859)
Restated Closing Balance	16 399 478

Value Added Tax

Reported Amount	23 284 043
Correction of error	(6 313 459)
Restated Closing Balance	16 970 584

The vat review was done by KPMG and these were the prior period errors that were identified during the review.

Receivables from exchange transactions

Reported Amount	132 411 278
Correction of error	(1 953 645)
Restated Closing Balance	130 457 633

Correction error was due to adjustment of consumer debtors not billed in the prior year.

Property, Plant and Equipment	Year	Land & Buildings	Movables	Community Infrastructure	Total	
Reported Amount	2013/14	475 943 385	40 813 135	96 500 913	1 632 128 938	2 245 386 369
Correction of error	2013/14	(324 687 676)	-	-	2 122 929 740	1 798 242 064
		- 151 255 709	40 813 135	96 500 913	3 755 058 678	4 043 628 433
Restated Closing Balance		151 255 709	40 813 135	96 500 913	3 755 058 678	4 043 628 433

The correction in the prior year error on Land and Buildings, due to properties in the FAR (Fixed Asset Register) that was never owned by the municipality. Infrastructure restatement is due to pipeline that was never included in the financial records.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
45. Prior period errors (continued)		
Statement of financial position		
Property, plant and equipment		1 798 242 064
Receivables from exchange transactions		(1 953 645)
Value Added Tax		(6 313 459)
Provisions		2 534 859
Trade payables		7 090 341
Post employee benefit		10 075 661
		1 809 675 811
Statement of Financial Performance		
Grants expenditure		240 909
General Expenses(Salga Expenses)		(2 293 050)
Depreciation and amortisation		(146 800 135)
		(148 852 276)

46. Comparative figures

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 45)

47. Going concern

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

48. Unauthorised expenditure

Opening balance	36 582 590	10 826 295
Unauthorised expenditure for the year	112 487 266	25 756 295
	149 069 856	36 582 590

Incident

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: To be condoned by Executive Committee

MIG projects	-	25 756 295
Depreciation	112 487 266	-
	112 487 266	25 756 295

49. Fruitless and wasteful expenditure

Opening balance	2 690 035	2 028 291
Fruitless and wasteful expenditure	522 368	661 744
	3 212 403	2 690 035

Fruitless and wasteful expenditure as results of the following:

Interest on late payments - R522 368 (2014: R661 744). Disciplinary steps/criminal proceedings:
A report will be adopted by the executive committee, condoning the "fruitless and wasteful expenditure" for the current year.
Disciplinary action is in progress for the prior year's fruitless and wasteful.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
50. Irregular expenditure		
Opening balance	163 341 418	65 539 301
Add: Irregular Expenditure - current year	10 171 927	102 516 155
Less: Amounts condoned	(131 380 727)	-
Less: Amounts recoverable (not condoned)	-	(4 714 038)
	42 132 618	163 341 418

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations	A report would be adopted by Executive Committee condoning the "Irregular Expenditure"	10 091 951
Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations	A report would be adopted by Executive Committee condoning the "Irregular Expenditure"	79 976
		10 171 927

Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014		
50. Irregular expenditure (continued)				
Department	Date	Successful tenderer	Reason	Amount
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	16 471
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	7 174
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	12 125
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	18 636
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	9 910
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	15 660
				79 976

Furthermore, the municipality has made the following awards to persons in service of Government institutions contrary to the provisions of paragraphs 44 of the Municipal Supply Chain Management Regulations:

Company Name	Related Person	Municipal Capacity	Purchases for the year	Purchases for the Year
African Tide Trading CC	AT Xaba	Eskom Holdings Ltd	-	362 502
Sihloniphe Business Trading Primary CO - OP LTD	NM Mkhanyawo	South African Police Service	-	2 475
Thubalam Trading	RL Nzengwa	EC: Roads and Public Works	4 246 326	9 877 508
Trentyre (Pty) Ltd	NP Mona	Komatiland Forests	-	136 397
Arch Actuarial Cons	C Wiess	Human Science Research Council	8 436	17 100
Business Connexion	NN Kekana	Gauteng Film Commission	453 281	41 580
Business Zone 628 Cc	R Sookdhev	KZN: Education	-	26 525
Eaton Electric South Africa Pty Ltd	FC Cambell Jr	South African Weather Service	21 314	11 031
Isibonelo Civils Cc	BP Muthwa	South African Social Security Agency	-	74 015
Macsteel Fluid Control	DD Mokgathe	State Diamond Trader	129 760	26 694
Makhayelihle Investments Pty Ltd	K Makhaye	eThekwini Metro	-	5 836
Minolco (Pty) Ltd	KR Mthimunye	State Information Technology Agency	86 809	68 820
Mott Macdonald South Africa Pty Ltd	AM Naidu	Construction Industry Development Board	-	865 337
Musakhe Trading	NP Chiliza	KZN: Education	150 000	30 000

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand			2015	2014
50. Irregular expenditure (continued)				
Nashua Communications	D Nchoba	NAT: Arts & Culture	1 063 205	99 063
SMEC South Africa (Pty) Ltd	K Pillay	Passenger Rail Agency Of Sa Tshwane	-	584 563
WCO Africa (Pty) Ltd T/A SANI	TS Setshedi	University Of Technology	1 060 372	8 593 792
Wole Trading Enterprise Cc	BG Masondo	KZN: Health	-	71 000
Gezinsila Labour & Protection Services	PA Mfeka	Transnet Tfr	674 342	-
Lamsta Suppliers And Projects	MZ Ndabankulu	Ec: Rural Dev & Agrarian Reform	485 768	-
Iphiko Lempilo Supplies Pty Ltd	PZ Nong	KZN: Health	72 000	-
Illovo Sugar Ltd	M Hankinson	Transnet Group	439 169	-
St Michaels Sands Hotel	YS Song	Ithala Development Finance Corporation Ltd	16 600	-
Bigen Africa Services (Pty) Ltd	J Botha	Development Bank Of Southern Africa	656 097	-
Pricewaterhousecoopers Combined Systems Pty Ltd	PJ Mothibe	Independent Regulatory Board For Auditors	112 363	-
Consolidated African Technolog	SS Ntsaluba	National Energy Regulator Of South Africa	141 075	-
CQS Technology Holdings	IB Skosana	Transnet Group	275 035	-
			10 091 952	20 894 238

51. Water losses

Water losses		
30 June Unaccounted water losses	28 211 242	20 333 005

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tempered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

A five-year strategic non-revenue water reduction was adopted and implemented by the Executive Committee in May 2008. The below-mentioned technical information was derived at as part of the implementation plan:

Volumes in ML/year:		
System input volume	41 229	40 458
Billed authorised consumption	28 992	31 464
Unbilled authorised consumption	326	838
Apparent losses	3 487	1 679
Real losses	8 423	6 477
Estimated non-revenue water	12 237	8 994
	-	-

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	2 038 851	2 118 324
Amount paid - current year	(2 038 851)	(2 118 324)
	-	-

No amounts were outstanding at the end of the financial year.

Audit fees

Opening balance	368 161	204 159
Current year subscription / fee	2 384 650	2 059 806
Amount paid - current year	(2 384 650)	(1 691 645)
Amount paid - previous years	(368 161)	(204 159)
	-	368 161

No amounts were outstanding at the end of the financial year.

PAYE, Skills Development Levy and UIF

Current year subscription / fee	40 340 203	35 783 740
Amount paid - current year	(40 340 203)	(35 783 740)
	-	-

No amounts were outstanding at the end of the financial year.

Pension and Medical Aid Deductions

Current year subscription / fee	56 522 612	51 160 355
Amount paid - current year	(56 522 612)	(51 160 355)
	-	-

No amounts were outstanding at the end of the financial year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor VL Ntanza	1 138	1 219	2 357
Councillor SM Zuma	42	-	42
Councillor TN Dzingwa	754	1 824	2 578
Councillor IM Mavundla	5	-	5
Councillor NA Madlala	116	-	116
Councillor NH Gumede	1 794	-	1 794
Councillor ST Gumede	111	779	890
Councillor SB & SP Cele	-	5 072	5 072
Councillor ST & PY Gumede	422	3 115	3 537
Councillor SM Mohamed	819	-	819
	5 201	12 009	17 210

Ugu District Municipality

(Registration number DC21)

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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53. S36 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 municipal council and includes a note to the financial statements.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Department	Date	Successful Tenderer	Reason	Amount
Corporate Services	29 August 2014	Bates Delta	S36(ii)	190 000
Corporate Services	31 July 2014	Brian Thompson	S36(ii)	190 000
Corporate Services	29 August 2014	Union Motors	S36(ii)	190 000
Corporate Services	15 September 2014	Bates Delta	S36(ii)	190 000
Corporate Services	29 August 2014	Brian Thompson	S36(ii)	190 000
Water Services	15 August 2014	Royal Haskoningdhv Pty Ltd	S36(ii)	3 814 351
Treasury	15 February 2015	CQS Technology Holdings	S36(ii)	121 713
				4 886 064

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

APPENDIX A
UGU DISTRICT MUNICIPALITY

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2015

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2014	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2015
	R				R	R	R	R
ANNUITY LOANS								
ABSA	102 000 000	11.51%	4076267341	30/06/2020	74 699 505		9 205 233	65 494 272
DBSA	5 000 000	2.65%	100932/001	30/06/2015	1 523 874		751 922	771 952
DBSA	25 000 000	5.00%	101980/001	31/03/2022	17 223 066		1 800 135	15 422 931
DBSA	25 000 000	5.00%	101980/002	30/06/2023	20 567 442		1 631 046	18 936 396
DBSA	62 000 000	5.00%	102756/001	30/06/2029	55 910 641		2 490 463	53 420 178
DBSA (Ex Hibiscus Coast)	18 573 441	Various	Various	Various	10 034 040		898 443	9 135 597
DBSA (Ex Umdoni)	2 500 000	Various	Various	Various	373 885		202 251	171 634
DBSA (Ex Umuziwabantu)	1 850 000	Various	Various	Various	93 909		-	93 909
Total Annuity Loans	241 923 441				180 426 363	-	16 979 494	163 446 868
CAPITAL LEASE LIABILITIES								
ABSA Corporate Bank	10 000 000	6.60%	Various(44)	Various	6 938 939	-	-	6 938 939
Total Capital Lease Liabilities	10 000 000				6 938 939	-	-	6 938 939
TOTAL EXTERNAL LOANS	285 517 702				203 356 315	7 294 544	16 371 055	203 356 315