



PORT ST JOHNS
• MUNICIPALITY •

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

GENERAL INFORMATION

MEMBERS OF THE COUNCIL

Councillor D Mangqo
Councillor T Khukula
Councillor B Nokanda
Councillor ZH Cube
Councillor NB Mtuku
Councillor S Mzaza
Councillor L Ndamase
Councillor C Nduku/Mazuza
Councillor L Rolobile
Councillor GF Tobela
Councillor NF Bokwe
Councillor B Daniso
Councillor NF Diko
Councillor KM Fono
Councillor NC Fono
Councillor MPJ Kotana
Councillor P Langa
Councillor MS Mabovana
Councillor D Madini
Councillor S Madolo
Councillor Z Maqina
Councillor J S Lobi
Councillor N Mbotshwa
Councillor VN Mcekisa
Councillor Z Mhlabeni

ACTING MUNICIPAL MANAGER

F Guleni

ACTING CHIEF FINANCIAL OFFICER

C Mbilini

GRADING OF LOCAL AUTHORITY

Grade 2

AUDITORS

Auditor-General South Africa

BANKERS

ABSA

PHYSICAL ADDRESS

257 Main street
Port St Johns
5120

POSTAL ADDRESS

P O Box 2
Port St Johns
5120

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Port St Johns Municipality

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out in pages 4 to 34 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager:

Friday, August 30, 2013

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2013

Figures in Rand	Note(s)	2013	2012
ASSETS			
CURRENT ASSETS			
Inventories	2	371,205	204,468
Trade and other receivables from exchange transactions	3	58,832	319,634
VAT receivable	4	4,664,045	5,675,699
Trade and other receivables from non-exchange transactions	5	3,307,573	2,002,703
Cash and cash equivalents	6	14,907,850	3,456,226
		23,309,505	11,658,730
NON-CURRENT ASSETS			
Investment property	7	13,742,543	13,882,773
Property, plant and equipment	8	339,154,122	346,519,497
		352,896,665	360,402,270
TOTAL ASSETS		376,206,170	372,061,000
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	9	13,933,883	20,346,048
Unspent conditional grants and receipts	10	6,352,677	(880,254)
		20,286,560	19,465,794
NON-CURRENT LIABILITIES			
Provisions	11	773,461	159,918
Non-Current Liabilities		773,461	159,918
Current Liabilities		20,286,560	19,465,794
Liabilities of disposal groups		-	-
TOTAL LIABILITIES		21,060,021	19,625,712
Assets		376,206,170	372,061,000
Liabilities		(21,060,021)	(19,625,712)
NET ASSETS		355,146,149	352,435,288
NET ASSETS			
Accumulated surplus		355,146,149	352,435,288
TOTAL NET ASSETS		355,146,149	352,435,288

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2013	2012
Revenue			
Fines		32,528	83,002
Government grants & subsidies	12	90,006,165	96,609,186
Interest received (trading)		726,479	1,351,559
Interest received - investment	13	734,711	126,461
Licences and permits		22,336	10,409
Other income	14	646,216	725,211
Property rates	15	6,346,046	5,791,115
Rental of facilities and equipment	16	109,198	324,007
Service charges	17	488,545	514,281
Total revenue		99,112,224	105,535,231
Expenditure			
Debt impairment	18	1,914,115	3,677,309
Depreciation and amortisation	19	26,340,826	27,520,865
Employee related costs	20	30,374,151	26,581,565
Finance costs	21	-	745
General Expenses	22	25,593,419	18,899,947
Grants and subsidies paid	23	3,332,207	3,049,023
Loss on disposal of assets	24	77,946	-
Remuneration of councillors	25	8,808,210	8,370,667
Repairs and maintenance		1,615,324	1,125,523
Total expenditure		98,056,198	89,225,644
		-	-
Total revenue		99,112,224	105,535,231
Total expenditure		(98,056,198)	(89,225,644)
Surplus before taxation		1,056,026	16,309,587
Taxation		-	-
Surplus for the year		1,056,026	16,309,587

Port St Johns Municipality

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STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	341,941,895	341,941,895
Adjustments		
Correction of errors	(5,816,194)	(5,816,194)
Balance at July 01, 2011 as restated	336,125,701	336,125,701
Changes in net assets		
Surplus for the year	16,309,587	16,309,587
Total changes	16,309,587	16,309,587
Opening balance as previously reported	352,435,292	352,435,292
Adjustments		
Correction of errors	1,654,831	1,654,831
Balance at July 01, 2012 as restated	354,090,123	354,090,123
Changes in net assets		
Deficit for the year	1,056,026	1,056,026
Total changes	1,056,026	1,056,026
Balance at June 30, 2013	355,146,149	355,146,149
Note(s)		

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

CASH FLOW STATEMENT

Figures in Rand	Note(s)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from ratepayers, government and other		8,371,348	8,799,584
Grants		90,006,165	96,609,186
Interest income		734,711	126,461
		<u>99,112,224</u>	<u>105,535,231</u>
Payments			
Employee costs		(39,182,361)	(34,952,232)
Suppliers		(29,569,872)	(12,184,846)
Finance costs		-	(745)
		<u>(68,752,233)</u>	<u>(47,137,823)</u>
Total receipts		99,112,224	105,535,231
Total payments		(68,752,233)	(47,137,823)
Net cash flows from operating activities	29	<u>30,359,991</u>	<u>58,397,408</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(19,176,393)	(56,508,255)
Proceeds from sale of property, plant and equipment	8	268,026	1,238,753
Net cash flows from investing activities		<u>(18,908,367)</u>	<u>(55,269,502)</u>
Net increase/(decrease) in cash and cash equivalents		11,451,624	3,127,906
Cash and cash equivalents at the beginning of the year		3,456,226	328,320
Cash and cash equivalents at the end of the year	6	<u>14,907,850</u>	<u>3,456,226</u>

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

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	Refer to note 42
Figures in Rand						
Statement of Financial Performance						
REVENUE						
REVENUE FROM EXCHANGE TRANSACTIONS						
Service charges	535,604	(85,604)	450,000	488,545	38,545	1
Rental of facilities and equipment	280,322	(197,822)	82,500	109,198	26,698	2
Interest received (trading)	-	450,000	450,000	726,479	276,479	3
Licences and permits	15,580	12,920	28,500	22,336	(6,164)	4
Other income - (rollup)	84,320	(84,320)	-	646,216	646,216	5
Interest received - investment	-	-	-	734,711	734,711	6
Gains on disposal of assets	-	268,025	268,025	-	(268,025)	
Total revenue from exchange transactions	915,826	363,199	1,279,025	2,727,485	1,448,460	
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
TAXATION REVENUE						
Property rates	4,571,266	61,514	4,632,780	6,346,046	1,713,266	7
Government grants & subsidies	95,721,000	-	95,721,000	90,006,165	(5,714,835)	8
TRANSFER REVENUE						
Fines	34,000	6,500	40,500	32,528	(7,972)	9
Total revenue from non-exchange transactions	100,326,266	68,014	100,394,280	96,384,739	(4,009,541)	
'Total revenue from exchange transactions'	915,826	363,199	1,279,025	2,727,485	1,448,460	
'Total revenue from non-exchange transactions'	100,326,266	68,014	100,394,280	96,384,739	(4,009,541)	
Total revenue	101,242,092	431,213	101,673,305	99,112,224	(2,561,081)	
EXPENDITURE						
Personnel	(26,193,909)	(3,549,540)	(29,743,449)	(30,374,151)	(630,702)	10
Remuneration of councillors	(8,735,851)	(387,149)	(9,123,000)	(8,808,210)	314,790	11
Depreciation and amortisation	-	-	-	(26,340,826)	(26,340,826)	12
Debt impairment	-	(29,000,000)	(29,000,000)	(1,914,115)	27,085,885	13
Repairs and maintenance	(3,746,798)	643,457	(3,103,341)	(1,615,324)	1,488,017	14
Grants and subsidies paid	(3,332,207)	-	(3,332,207)	(3,332,207)	-	15
General Expenses	(34,664,330)	2,812,022	(31,852,308)	(25,593,419)	6,258,889	16
Total expenditure	(76,673,095)	(29,481,210)	(106,154,305)	(97,978,252)	8,176,053	
	99,961,770	(26,740)	99,935,030	99,112,224	(822,806)	
	(76,673,095)	(29,481,210)	(106,154,305)	(97,978,252)	8,176,053	
Operating surplus	23,288,675	(29,507,950)	(6,219,275)	1,133,972	7,353,247	
Loss on disposal of assets and liabilities	-	268,025	268,025	(77,946)	(345,971)	17
	23,288,675	(29,507,950)	(6,219,275)	1,133,972	7,353,247	

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

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	Refer to note 42
Figures in Rand						
	-	268,025	268,025	(77,946)	(345,971)	
Deficit for the year	23,288,675	(29,239,925)	(5,951,250)	1,056,026	7,007,276	
Deficit before taxation	23,288,675	(29,239,925)	(5,951,250)	1,056,026	7,007,276	
Taxation	-	-	-	-	-	

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period except as indicated below.

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

For the years ended 30 June 2012 and 30 June 2013 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

(a) is required by a Standard of GRAP; or

(b) results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

The Minister of Finance has announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for the period starting 1 April 2012.

1.2 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.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.2 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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 cash flows discounted at the effective interest rate, computed at initial recognition.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.3 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 - Segment Reporting - issued March 2005
- GRAP 20 - Related Party and Disclosure (Revised)
- GRAP 25 - Employee Benefits - issued December 2009
- GRAP 105 - Transfer of Function Between Entities Under Common Control - issued November 2010
- GRAP 106 - Transfer of Function Between Entities Not Under Common Control - issued November 2010
- GRAP 107 - Mergers - issued November 2010

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 - Related Party Disclosures (Revised)
- GRAP 25 - Employee Benefits - issued December 2009

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these Standards will not have a significant impact on the financial position, financial performance, or cash flow of the municipality.

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.

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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.4 INVESTMENT PROPERTY (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated average asset lives:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

1.5 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.

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.

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

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

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

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.5 PROPERTY, PLANT AND EQUIPMENT (continued)

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	Average useful life
Land	Indefinite
Buildings	
• Community Buildings	30 years
• Recreational Facilities	20-30 years
• Other Buildings	30 years
Plant and machinery	
• Specialised plant and equipment	10-15 Years
• Other items of plant and equipment	2-5 Years
Furniture and fixtures	
• Furniture and Fittings	7-10 Years
Motor vehicles	
• Specialist Vehicles	10 years
• Other Vehicles	5 Years
Office equipment	3-7 Years
IT equipment	
• Computer Equipment	3
Infrastructure	
• Roads and Paving	30 years
• Pedestrian Malls	30 Years
• Electricity & Sewerage	15-20 Years
Bins and containers	5 Years

1.6 SITE RESTORATION AND DISMANTLING COST

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

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- 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.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.7 FINANCIAL INSTRUMENTS

Trade and other receivables from exchange/non-exchange transactions

Trade and other receivables from exchange/non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. 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. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables from exchange/non-exchange transactions are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.8 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.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

Income for leases is disclosed under revenue in statement of financial performance.

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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.9 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS

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

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

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

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

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

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

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

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

Useful life is either:

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

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS (continued)

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.11 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

1.12 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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.12 REVENUE FROM EXCHANGE TRANSACTIONS (continued)

Sale of goods

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

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

Rendering of services

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

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

When 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 surveys of work performed.

1.13 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

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

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.13 REVENUE FROM NON-EXCHANGE TRANSACTIONS (continued)

Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

ACCOUNTING POLICIES

1.15 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.

1.16 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the 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.

1.17 USE OF ESTIMATES

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 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 cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2012 to 6/30/2013.

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.

1.19 RELATED PARTIES

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

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.

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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
2. INVENTORIES		
Finished goods	371,205	204,468
3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Refuse Services	(1)	260,801
O.R Tambo Municipality	58,833	58,833
	58,832	319,634
4. VAT RECEIVABLE		
VAT	4,664,045	5,675,699
VAT is payable on a receipt basis. Only once payment is received from debtors is VAT paid over to SARS.		
5. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Gross balances		
Rates	12,199,953	9,480,719
Refuse	2,542,082	2,127,576
Property lease	158,626	148,164
	14,900,661	11,756,459
Less: Allowance for impairment		
Rates	(9,157,330)	(7,693,104)
Refuse	(2,309,631)	(1,942,121)
Property lease	(126,127)	(118,531)
	(11,593,088)	(9,753,756)
Net balance		
Rates	3,042,623	1,787,615
Refuse	232,451	185,455
Property lease	32,499	29,633
	3,307,573	2,002,703
Prior period error - refer to note 32		
Previously stated	-	1,787,614
Adjusted by	-	215,089
	-	2,002,703
Rates		
Current (0 -30 days)	(845,556)	1,443,714
31 - 60 days	141,687	2,056,300
61 - 90 days	132,974	556,886
91 - 120 days	12,770,848	5,423,819
	12,199,953	9,480,719

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
5. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)		
Refuse		
Current (0 -30 days)	150,206	136,455
31 - 60 days	63,124	471,123
61 - 90 days	61,623	366,897
91 - 120 days	2,267,129	1,153,101
	2,542,082	2,127,576
Housing rental		
Current (0 -30 days)	26,190	-
31 - 60 days	-	56,167
61 - 90 days	-	-
91 - 120 days	132,436	91,997
	158,626	148,164
Reconciliation of allowance for impairment		
Balance at beginning of the year	(9,753,756)	(11,846,594)
Debt impairment written off against allowance	(1,839,332)	-
Reversal of allowance	-	2,092,838
	(11,593,088)	(9,753,756)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Bank balances	2,960,148	875,276
Short-term deposits	11,947,702	2,580,950
	14,907,850	3,456,226

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2013	June 30, 2012	June 30, 2011
ABSA BANK - current - 4052439958	2,960,033	875,270	339,997	2,960,033	875,270	339,997
ABSA BANK - Call Acc - 9269486056	2,888,440	92,876	-	2,888,440	92,876	-
ABSA BANK - Call Acc - 9269486187	1,000	569,686	-	1,000	569,686	-
ABSA BANK - Call Acc - 9269487159	350,364	7,646	-	350,364	7,646	-
ABSA BANK - Call Acc - 9269487272	1,000	1,907,017	-	1,000	1,907,017	-
ABSA BANK - Call Acc - 9084721344	2,497,163	1,461	1,432	2,497,163	1,461	1,432
ABSA BANK - Call Acc - 9279313891	5,085	-	-	5,085	-	-
ABSA BANK - Call Acc - 9279313922	6,202,347	-	-	6,202,347	-	-
ABSA BANK - Call Acc - 9084929972	2,302	2,265	2,123	2,302	2,265	2,123
Total	14,907,734	3,456,221	343,552	14,907,734	3,456,221	343,552

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2013 2012

7. INVESTMENT PROPERTY

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	14,023,003	(280,460)	13,742,543	14,023,003	(140,230)	13,882,773

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	13,882,773	(140,230)	13,742,543

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	14,023,003	(140,230)	13,882,773
Rental income from investment properties		109,198	324,007

The three municipal properties representing investment properties are in accordance with the accounting policy carried at nominal value.

8. PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	59,313,374	(300,508)	59,012,866	59,221,782	(156,683)	59,065,099
Plant and machinery	11,064,203	(2,909,181)	8,155,022	10,558,405	(2,038,685)	8,519,720
Furniture and fixtures	497,190	(242,213)	254,977	419,520	(180,538)	238,982
Motor vehicles	2,680,966	(930,515)	1,750,451	3,388,726	(1,117,933)	2,270,793
IT equipment	1,372,357	(741,843)	630,514	1,067,397	(525,713)	541,684
Infrastructure	355,527,951	(97,572,946)	257,955,005	337,455,891	(73,478,186)	263,977,705
Community	13,055,758	(1,807,960)	11,247,798	13,055,758	(1,324,764)	11,730,994
Traffic equipment	246,828	(99,339)	147,489	235,834	(61,314)	174,520
Total	443,758,627	(104,604,505)	339,154,122	425,403,313	(78,883,816)	346,519,497

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand			2013	2012		
8. PROPERTY, PLANT AND EQUIPMENT (continued)						
Reconciliation of property, plant and equipment - 2013						
	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Buildings	59,065,099	91,592	-	-	(143,825)	59,012,866
Plant and machinery	8,519,720	665,799	(132,295)	159	(898,361)	8,155,022
Furniture and fixtures	238,982	77,670	-	(1,381)	(60,294)	254,977
Motor vehicles	2,270,793	-	(213,677)	(269)	(306,396)	1,750,451
IT equipment	541,684	304,960	-	8,394	(224,524)	630,514
Infrastructure	263,977,705	18,025,378	-	-	(24,048,078)	257,955,005
Community	11,730,994	-	-	-	(483,196)	11,247,798
Office equipment	174,520	10,994	-	(2,101)	(35,924)	147,489
	346,519,497	19,176,393	(345,972)	4,802	(26,200,598)	339,154,122

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	58,767,751	426,273	-	(128,925)	59,065,099
Plant and machinery	9,391,718	26,073	(1,900)	(896,171)	8,519,720
Furniture and fixtures	293,450	-	(1,211)	(53,257)	238,982
Motor vehicles	1,814,719	804,055	-	(347,981)	2,270,793
IT equipment	493,001	236,325	(8,331)	(179,311)	541,684
Infrastructure	235,506,834	54,959,218	(1,213,490)	(25,274,857)	263,977,705
Community	12,214,189	-	-	(483,195)	11,730,994
Office equipment	163,165	56,311	(13,821)	(31,135)	174,520
	318,644,827	56,508,255	(1,238,753)	(27,394,832)	346,519,497

Reconciliation of Work-in-Progress 2013

	Included within Infrastructure	Total
Previously stated	28,185,051	28,185,051
Adjusted by	972,130	972,130
	29,157,181	29,157,181

Reconciliation of Work-in-Progress 2012

	Included within Infrastructure	Total
Opening balance	40,697,868	40,697,868
Additions/capital expenditure	12,060,142	12,060,142
Transferred to completed items	(24,572,959)	(24,572,959)
	28,185,051	28,185,051

Prior period error - refer note 32

Previously stated	-	344,318,318
Adjusted by	-	972,130
	-	345,290,448

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.

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
9. PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables	11,380,810	16,716,950
Sars Creditor	-	1,797,791
Provision for Leave Pay	1,433,614	892,749
Provision for Bonuses (13th cheque)	540,830	818,206
Retention	517,629	59,352
Deposits received	61,000	61,000
	13,933,883	20,346,048
Prior period error - refer to note 32		
Previously stated	-	19,442,693
Adjusted by	-	903,355
	-	20,346,048

10. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Unspent grants	5,850,212	(880,254)
EPWP	502,465	-
	6,352,677	(880,254)

Movement during the year

Balance at the beginning of the year	(880,254)	3,137,541
Additions during the year	97,239,096	92,591,391
Income recognition during the year	(90,006,165)	(96,609,186)
	6,352,677	(880,254)

See note 12 for reconciliation of grants from from other spheres of Government.

11. PROVISIONS

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Environmental rehabilitation	159,918	613,543	773,461

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	152,097	7,821	159,918

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
12. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Equitable share	67,852,000	59,537,000
EPWP	332,354	467,000
Department of Transport	-	3,137,541
MSIG	799,999	790,000
FMG grant	1,567,459	1,908,125
SETA grant	74,743	-
MSP	254,163	-
LED	328,622	183,857
O.R Tambo Intervention	-	9,359,534
Human settlements grant	602,379	-
	71,811,719	75,383,057
Capital grants		
MIG	18,194,446	21,226,129
	18,194,446	21,226,129
	90,006,165	96,609,186

Equitable Share

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

All registered indigents receive a monthly subsidy 50kw of electricity which is funded from the equitable share.

Grants

Balance unspent at beginning of year	(880,254)	-
Current-year receipts	96,404,277	96,609,186
Conditions met - transferred to revenue	(89,673,811)	(97,489,440)
	5,850,212	(880,254)

Conditions still to be met - remain liabilities (see note 10).

EPWP Grant

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(497,535)	-
	502,465	-

Conditions still to be met - remain liabilities (see note 10).

13. INVESTMENT REVENUE

Interest revenue

Interest fom Investments	734,711	126,461
	-	-
	734,711	126,461

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
14. OTHER INCOME		
Donation received	-	193,845
Greenest town award	-	200,000
Insurance Claims received	478,105	33,988
Plan fees and tender Documents	63,457	130,090
Sundry Income	104,654	167,288
	646,216	725,211
15. PROPERTY RATES		
Rates received		
Residential	866,944	955,720
Commercial	1,994,325	1,959,495
State	3,487,702	3,073,064
Less: Income forgone	(2,925)	(197,164)
	6,346,046	5,791,115
Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies.		
Valuations		
Residential	95,794,000	122,129,146
Commercial	199,432,500	215,027,767
State	155,701,000	192,074,000
Municipal	-	-
Small holdings and farms	27,827,500	21,234,000
Churches	3,826,525	3,826,525
Vacant plots	29,007,500	20,000,943
	511,589,025	574,292,381
Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The general rate of 1cent in a rand is applied to determine the assessment rates, rebates of 30% are granted to state properties. Rates are levied on annual bases on property owners.		
16. RENTAL OF FACILITIES AND EQUIPMENT		
Premises		
Lease rental	109,198	324,007
Premises	109,198	324,007
Garages and parking	-	-
Facilities and equipment	-	-
17. SERVICE CHARGES		
Refuse removal	488,545	514,281
18. DEBT IMPAIRMENT		
Debt impairment	1,914,115	3,677,309
19. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	26,340,826	27,520,865

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
20. EMPLOYEE RELATED COSTS		
Basic	21,223,001	18,209,499
Bonus	1,317,856	818,206
Medical aid - company contributions	2,808,222	2,664,601
UIF	352,083	261,971
WCA	205,718	-
SDL	343,542	242,654
Leave pay provision charge	540,865	892,749
Post-employment benefits - Pension - Defined contribution plan	3,582,864	3,491,885
	30,374,151	26,581,565
Remuneration of municipal manager		
Annual Remuneration	895,033	720,000
Car Allowance	161,766	240,000
Subsistence Allowance	45,889	-
Contributions to UIF, Medical and Pension Funds	1,884	1,497
Public Office Allowance	77,317	241,200
Acting Allowance	-	184,068
Settlement Agreement	-	285,405
	1,181,889	1,672,170
<p>The Municipal Manager has been suspended from the 25 January 2013, acting allowance has been paid to the Corporate Services Manager for the period of suspension.</p>		
Remuneration of Chief Financial Officer		
Annual Remuneration	-	550,571
Car Allowance	-	183,375
Contributions to UIF, Medical and Pension Funds	706	1,497
Public Office Allowance	-	46,821
Acting Allowance	120,899	184,068
Settlement agreement	-	322,069
	121,605	1,288,401
Remuneration of the Manager - Corporate Services		
Annual Remuneration	473,350	550,571
Car Allowance	114,392	183,375
Acting Allowance	152,000	-
Contributions to UIF, Medical and Pension Funds	1,712	1,497
Public Office Allowance	52,572	46,821
Subsistence Allowance	22,443	-
Other allowances	63,566	-
	880,035	782,264
Remuneration of the Community Services Manager		
Annual Remuneration	632,872	-
Car Allowance	136,828	-
Contributions to UIF, Medical and Pension Funds	1,961	-
Public Office Allowance	27,100	-
Subsistence Allowance	17,542	-
Other Allowances	28,184	-
	844,487	-

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
20. EMPLOYEE RELATED COSTS (continued)		
Remuneration of the Engineering Manager		
Annual Remuneration	505,000	550,571
Car Allowance	150,000	183,375
Contributions to UIF, Medical and Pension Funds	1,712	1,497
Public Office Allowance	120,000	46,821
Subsistence Allowance	28,840	-
Other Allowances	40,749	-
	846,301	782,264
Remuneration of the Local Economic Development Manager		
Annual Remuneration	557,756	550,571
Car Allowance	177,652	183,375
Contributions to UIF, Medical and Pension Funds	1,884	1,497
Public Office Allowance	28,350	46,821
Subsistence Allowance	18,450	-
Other Allowances	5,760	-
	789,852	782,264
21. FINANCE COSTS		
Bank overdraft	-	745

Port St Johns Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
22. GENERAL EXPENSES		
Advertising	344,367	513,408
Audit committee fees	125,117	60,465
Auditors remuneration	2,925,477	2,923,613
Bank charges	71,883	62,433
Books & Publications	16,614	17,359
Casual labour	235,594	170,200
Cleaning	2,006,876	1,609,606
Consulting and professional fees	3,910,826	1,809,730
Consumables	247,097	89,711
Entertainment	185,047	99,945
Insurance	535,991	452,196
Conferences and seminars	23,940	11,534
IT expenses	52,460	37,634
Lease rentals on operating lease	1,019,886	546,212
Promotions and sponsorships	315,164	-
Fuel and oil	1,791,282	1,701,909
Postage and courier	636	-
Printing and stationery	461,566	260,123
Licence Fees	172,087	179,464
Security (Guarding of municipal property)	1,406,510	1,340,160
Staff welfare	18,095	11,071
Subscriptions and membership fees	195,327	26,459
Telephone and fax	1,420,403	1,049,633
Training	69,248	21,491
Travel - local	3,711,869	2,487,774
Levy - SALGA	-	512,466
Assets expensed	-	42,576
Electricity	2,251,632	1,890,544
Uniforms	230,675	306,463
Publications & Marketing materials	6,900	100,025
Social Responsibility Programmes	1,092,968	337,590
Salaries Mangroove	93,500	120,000
Consumables & Beverages	26,904	44,259
Chemicals	613,543	7,821
Convention bureau	2,460	42,740
Other expenses	11,475	13,333
	25,593,419	18,899,947
23. GRANTS AND SUBSIDIES PAID		
Other subsidies		
LED	3,332,207	3,049,023
Grants paid to ME's	-	-
Other subsidies	3,332,207	3,049,023
24. LOSS ON DISPOSAL OF ASSETS		
Loss on sale of assets	77,496	-

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
25. REMUNERATION OF COUNCILLORS		
Mayor	604,460	572,948
Speaker	483,567	458,358
Chief Whip	466,137	441,471
Exco members	1,527,934	1,687,063
Councillors	5,599,638	4,948,867
Other	126,474	261,960
	8,808,210	8,370,667
26. REVENUE		
Service charges	488,545	514,281
Rental of facilities and equipment	109,198	324,007
Interest received (trading)	726,479	1,351,559
Licences and permits	22,336	10,409
Other income - (rollup)	646,216	725,211
Interest received - investment	734,711	126,461
Property rates	6,346,046	5,791,115
Government grants & subsidies	90,006,165	96,609,186
Fines	32,528	83,002
	99,112,224	105,535,231
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	488,545	514,281
Rental of facilities and equipment	109,198	324,007
Interest received (trading)	726,479	1,351,559
Licences and permits	22,336	10,409
Other income - (rollup)	646,216	725,211
Interest received - investment	734,711	126,461
	2,727,485	3,051,928
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	6,346,046	5,791,115
Transfer revenue		
Government grants & subsidies	90,006,165	96,609,186
Fines	32,528	83,002
	96,384,739	102,483,303
27. AUDITORS' REMUNERATION		
Fees	2,925,477	2,923,613
28. PENSION AND MEDICAL AID DEDUCTIONS		
Pension and Medical Aid Deductions		
Opening balance	-	995,792
Current year payroll deductions and council contributions	7,141,596	6,118,940
Amount paid - current year	(7,141,596)	(6,118,940)
Amount paid - previous years	-	(995,792)
	-	-

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
28. PENSION AND MEDICAL AID DEDUCTIONS (continued)		
Retirement benefit information		
The municipality has a retirement contribution plan to which all qualifying employees belong.		
29. CASH GENERATED FROM OPERATIONS		
Surplus	1,056,026	16,309,587
Adjustments for:		
Depreciation and amortisation	26,340,826	27,520,865
Loss on sale of assets	77,946	-
Debt impairment	1,914,115	3,677,309
Movements in provisions	613,543	7,821
Prior year error	1,650,033	20,867,880
Changes in working capital:		
Inventories	(166,737)	46,032
Trade and other receivables from exchange transactions	260,802	(260,802)
Consumer debtors	(3,218,985)	7,551,195
Payables from exchange transactions	(6,412,163)	(16,013,479)
VAT	1,011,654	2,708,795
Unspent conditional grants and receipts	7,232,931	(4,017,795)
	30,359,991	58,397,408

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
30. COMMITMENTS		
Authorised capital expenditure		
Approved and contracted for		
• Infrastructure assets	20,225,709	9,706,608
Approved but not yet contracted for		
• Infrastructure assets	34,400,467	-
Approved and contracted for after year end		
Hire purchase agreement for Plant with Laman	31,476,568	-

This committed expenditure relates to access roads and will be financed by Municipal Infrastructure Grant.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	109,682	82,033
- in second to fifth year inclusive	546,735	82,033
- later than five years	6,970,009	-
	7,626,426	164,066

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. The Municipality entered into an agreement with Transnet for the long term lease of land over a period of 30 years. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments		
- within one year	44,520	44,520

Certain of the municipality's property is held to generate rental income. lease agreements are renewable and renewed on annual basis.

31. CONTINGENCIES

Port St Johns Municipality is a defendant in a litigation by the following parties of which the outcome of the case cannot be reliably estimated as at 30 June 2013. Financial exposure is R13 300 000.

Contigent Liabilities

ELB Civils	120,000	120,000
Zamani Civils	10,000,000	10,000,000
A Ntloko	480,000	480,000
T Mfecane	700,000	700,000
M kotana vs PSJ Municipality	2,000,000	2,000,000
	13,300,000	13,300,000

- ELB Civils- Civil claims for services rendered at interest
- Zamani Civils- Damages allegedly suffered as a result of the Municipality terminating the contract of upgrading CBD
- T. Mfecane - Civil claim for the alleged assault of the plaintiff by a municipal traffic officer
- A. Ntloko- Civil claim for the alleged unlawful arrest of the plaintiff

32. PRIOR PERIOD ERRORS

The Municipality made the following adjustments to figures reported previously.

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

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
32. PRIOR PERIOD ERRORS (continued)		
Statement of financial position		
Municipal Infrastructure Grant - unspent grant	-	972,130
Accumulated Surplus	-	972,130
Accumulated surplus - prior year accruals not accounted for	-	(1,034,309)
Accruals- understated	-	1,349,143
Infrastructure Aassets- road Omitted in prior year	-	1,229,049
Accumulated surplus - Infrastructure assets understated	-	(1,229,049)
Accumulated Surplus- understatement of accruals by salga backpay	-	968,796
Accruals- understated by 2,5% Salga Backpay relating to prior yrsrs	-	(1,218,185)
Accumulated surplus- Debtors provision	-	6,076,447
Statement of Financial Performance		
Municipal Infrastructure grant	-	(972,129)
General Expenditure	-	(1,286,963)
Salaries	-	249,389
Debt impairment	-	(6,076,447)
33. RISK MANAGEMENT		
Financial risk management		
Liquidity risk		
The municipality's risk to liquidity is a result of funds availability to cover future commitments. At present we do not have any finance lease obligations or long term borrowings. The commitments we have are trade and other payables which are managed through an ongoing review process.		
Interest rate risk		
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.		
Credit risk		
Maximum credit risk exposure		
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any counter-party. No credit rating is done on trade receivables, however an assesement is done on customers for affordability through indigent registration process. No major financial assets are exposed to credit risk at year end except for investment accounts held with ABSA Bank.		
34. EVENTS AFTER THE REPORTING DATE		
Employee costs – A SALGA back pay, amounting to R1 430 185, was paid after year end. The back pay relates to the financial years ending 30 June 2009 to 30 June 2013.		
Legal fees – Legal fees, amounting to R880 380, were paid after year end. The fees relate to a case that was on-going during the current year and finalised after year end.		
35. UNAUTHORISED EXPENDITURE		
Opening balance	32,455,887	2,208,629
Add: current year expenditure	-	30,455,887
	32,455,887	32,664,516

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
36. FRUITLESS AND WASTEFUL EXPENDITURE		
Opening balance	3,310,638	2,719,280
Add: current year expenditure	76,098	591,358
	3,386,736	3,310,638
37. IRREGULAR EXPENDITURE		
Opening balance	7,707,868	9,645,574
Add: Irregular Expenditure - current year	206,865	1,508,346
Less: Amounts condoned	-	(3,446,052)
	7,914,733	7,707,868
38. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS		
<p>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.</p> <p>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 and includes a note to the annual financial statements.</p> <p>Fuel,accommodation and motor vehicle servicing 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 Council who considered them and subsequently approved the deviation from the normal supply chain management regulations.</p>		
Total deviations		
Deviations with SCM	3,100,329	801,880
39. RELATED PARTIES		
Relationships		
Controlled entities - Port St Johns Development Agency		
Related party transactions		
Grants paid		
Port St Johns Development Agency	3,332,207	2,500,000
40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
Contributions to organised local government		
Opening balance	480,466	473,526
Current year subscription / fee	400,000	480,466
Amount paid - current year	(480,466)	(473,526)
	400,000	480,466
Audit fees		
Opening balance	2,508,819	2,729,371
Current year subscription / fee	2,930,352	2,918,738
Amount paid - current year	(5,813,226)	(3,139,290)
	(374,055)	2,508,819

Port St Johns Municipality

Annual Financial Statements for the year ended June 30, 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)		
PAYE and UIF		
Opening balance	1,797,791	9,315,339
Current year subscription / fee	5,478,410	4,744,694
Amount paid - current year	(2,906,852)	(4,369,349)
Amount paid - previous years	(4,369,349)	(4,746,086)
Adjustments	-	(3,146,807)
	-	1,797,791
VAT		
VAT receivable	4,664,045	5,675,699

VAT output payables and VAT input receivables are shown in note 4.

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

Councillors' arrear consumer accounts

The were no Councillors arrear accounts outstanding at June 30, 2013.

41. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Provision for doubtful debts
- Impairment of assets
- Contingent liabilities

42. BUDGET DIFFERENCES

STATEMENT OF FINANCIAL PERFORMANCE

1. Service charges - Billing was increased due to reclassification arising from data cleansing.
2. Rental of facilities and equipment - Municipality closed down some rental premises.
3. Interest received from debtors - Increased due to slow movement of payment of debtors.
4. Licences and permits - Less people visited to Port St Johns during festive to sell.
5. Sundry income - Not budget due to uncertainty.
6. Interest received from investment - Not budgeted for.
7. Property rates - Billing was increased due to reclassification arising from data cleansing.
8. National grants - Spent less on the grants.
9. Fines - Less violations on the traffic rules.
10. Salaries - Increase personal and 2,5 % SALGA increment.
11. Councilors remunerations - There were some gaps during the year.
12. Depreciation - Some assets were sold during the year so depreciation was decreased.
13. Repairs and maintenance - Some assets were sold which resulted to decrease in repairs.
14. Debt impairments - We could not make a reliable estimations.
15. Grants expenditure - Some grants expenditure reclassified as general expenditures.
16. General expenses - Implementation of bolt tightening by the municipality.
17. Profit(loss) on sale of the assets - Assets sold were in bad condition that resulted to be sold at a less price than expected.