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Johannesburg Water

Johannesburg Water (Proprietary) Limited
Annual Financial Statements
for the year ended 30 June 2010

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
Directors	M Janse Van Rensburg (Chairperson) GT Dumas (Managing Director) V Padiaychee (Financial Director) NA Macleod NB Mabuya N Govender N Skeepers T Modipane M Msezane C Tilly
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Parent	City of Johannesburg Metropolitan Municipality incorporated in South Africa
Bankers	Absa Bank Limited
Auditors	The Auditor-General
Secretary	G J Luden
Company registration number	2000/029271/07

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

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, Act 61 of 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practices (GRAP) and in accordance with directives issued by the National Treasury. The Auditor-General is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 61 of 1973 and directives issued by the National Treasury.

The annual financial statements are based on appropriate policies consistently applied and supported by reasonable and prudent judgments and estimates. No external party, including the shareholder, has the authority to amend the annual financial statements after being issued by the company.

The project initiated by the City of Johannesburg Metropolitan Municipality during 2006 referred to as project Phakama has been rolled out during the 2010 financial year. In terms of the project, certain core functions that were managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated are the customer call centre function and the management of the billing and credit control functions in respect of customers that were previously managed by the company. The information technology platform for billing was changed from Venus to SAP.

The result of project Phakama is that the company has to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Billing
- Cash collection
- Debtors administration

The migration of functions as it relates to project Phakama is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and the company. The newly implemented processes and methods of operation are solely under the control and stewardship of the City of Johannesburg Metropolitan Municipality. The new arrangement will be managed in terms of a service level agreement underpinning the agency agreement.

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

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

The directors have reviewed the company's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow. Cash collection will be managed by the City of Johannesburg Metropolitan Municipality.

Directors' Responsibilities and Approval

The Auditor-General is responsible for independently reviewing and reporting on the company's annual financial statements.

The annual financial statements set out on pages 5 to 53, which have been prepared on the going concern basis, were approved by the directors on 27 August 2010 and were signed on its behalf by:

M Janse Van Rensburg (Chairperson)	**GT Dumas (Managing Director)**

Directors' Report

The directors submit their report for the year ended 30 June 2010.

1. INCORPORATION

The company was incorporated on 21 November 2000 and obtained its certificate to commence business on 1 January 2001.

2. REVIEW OF ACTIVITIES

Main business and operations

The company is engaged in the supply of water services as defined in the Water Services Act, Act 108 of 1997 and operates principally in South Africa.

The only significant change in the activities of the business during the 2010 financial year was the roll out of project Phakama by the City of Johannesburg Metropolitan Municipality. In terms of the project, certain core functions that were managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated are the customer call centre function and the management of the billing and credit control functions in respect of customers that were managed by the company. The information technology platform for billing was changed from Venus to SAP.

The result of project Phakama is that the company has to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Billing
- Cash collection
- Debtors administration

The implementation of project Phakama has resulted in significant challenges in all migrated functions. The board of directors have expressed their concern to the Shareholder, and have been assured that the matter is currently being addressed, and that appropriate interventions will be emplaced in the short term.

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

Net surplus of the company was R 192,149 million (2009: surplus R 200,303 million). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962. There is consequently no taxation effect.

3. GOING CONCERN

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

4. SUBSEQUENT EVENTS

The significant part of project Phakama was rolled out towards the end of the 2010 financial year. The company is currently experiencing challenges as a result of the new processes and methods of operation. The City of Johannesburg Metropolitan Municipality has indicated that the issues will be resolved in the short term. It is anticipated that the newly implemented systems and processes will be functioning adequately before the end of the 2011 financial year.

5. DIRECTORS' INTEREST IN CONTRACTS

The directors of the company did not have any interest in contracts entered into by the company.

6. ACCOUNTING POLICIES

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

Directors' Report

7. CONTRIBUTION FROM SHAREHOLDER

There were no changes in the authorised or issued share capital of the company during the year.

According to the company's register at 30 June 2010, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

8. BORROWING LIMITATIONS

In terms of the sale of business agreement, the company requires the approval of the shareholder in instances where the borrowing is to be secured by the hypothecation of the assets of the company.

9. NON-CURRENT ASSETS

There were no major changes in the nature of non-current assets of the company during the year.

10. DISTRIBUTIONS TO OWNER

No distributions were declared or paid to the shareholder during the year.

11. DIRECTORS

The directors of the entity during the year and to the date of this report are as follows:

Name	Nationality	Changes in appointment
M Janse Van Rensburg (Chairperson)	South African	
GT Dumas (Managing Director)	South African	
V Padiaychee (Financial Director)	South African	
NA Macleod	South African	
NB Mabuya	South African	
N Govender	South African	
P Dlamini	South African	Resigned 20 July 2009
N Skeepers	South African	
T Modipane	South African	
M Msezane	South African	
C Tilly	South African	Appointed 22 April 2010

12. SECRETARY

The secretary of the company is G J Luden of:

Business address	17 Harrison Street Marshalltown 2107
Postal address	P O Box 61542 Marshalltown 2107

Directors' Report

13. CORPORATE GOVERNANCE

13.1. General

The board of directors are committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the board supports the highest standards of corporate governance and the development of best practice.

The company confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002, and the Companies Act of South Africa, Act 61 of 1973. The board of directors discuss the responsibilities of management in this respect, at board meetings and monitors the company's compliance with the code on a quarterly basis.

The salient features of the company's adoption of the Code are outlined below:

13.2. Board of directors

The board:

- retains full control over the company, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company;
- is of a unitary structure comprising:
  9 non-executive directors, all of whom are independent directors as defined in the Code, and
  2 executive directors.

13.3. Chairperson and Managing Director

The Chairperson is a non-executive and independent director (as defined by the Code). The roles of the Chairperson and Managing Director are separate, with responsibilities divided between them, so that no individual has unfettered powers of decision.

Directors' Report

13.4. Executive meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the company.

Name	Board Meeting	Audit committee meeting	HR sub-committee meeting	Operations and procurement committee meeting	Total meetings
Total number of meetings held	5	6	5	5	21
M Janse Van Rensburg (Chairperson)	5	1	2	1	9
GT Dumas (Managing Director)	5	4	5	5	19
V Padiaychee (Financial Director)	4	6	5	4	19
NA Macleod	3	-	3	1	7
NB Mabuya	5	-	5	4	14
N Govender	5	6	5	-	16
N Skeepers	4	1	5	5	15
T Modipane	3	6	-	4	13
M Msezane	4	-	5	5	14
C Tilly	1	-	-	-	1

13.5. Audit and risk committee

The chairperson of the audit and risk committee is Mr. N. Govender, who is a non-executive director. The committee met 6 times during the financial year to review matters necessary to fulfill its role.

In terms of Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, the City of Johannesburg Metropolitan Municipality, as the shareholder, must appoint members of the audit and risk committee. Notwithstanding the fact that non-executive directors appointed by the shareholder constituted the company's audit and risk committee, National Treasury policy requires the appointment of further members to the audit and risk committee who are not directors of the company. Three independent members were appointed to the audit and risk committee in compliance with Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003.

The independent members of the audit and risk committee are:

J Behr	- attended 4 meetings
C Mbili	- attended 3 meetings
M Malope	- attended 6 meetings

13.6. Internal audit

The company has an internal audit unit which is operational. This is in compliance with the Local Government Municipal Finance Management Act, Act 56 of 2003.

Directors' Report

14. PARENT

The company's parent is the City of Johannesburg Metropolitan Municipality.

15. SPECIAL RESOLUTIONS

The company did not pass any special resolution during the year under review.

16. BANKERS

Amalgamated Banks of South Africa Limited served as the company's bankers throughout the financial year.

17. AUDITORS

The Auditor-General will continue in office in accordance with the Public Audit Act, Act 25 of 2004, section 92 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 and section 270(2) of the Companies Act, Act 61 of 1973.

Certificate by Company Secretary for the year ended 30 June 2010

In terms of section 268 G(d) of the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as required by the Companies Act and that all such returns are true, correct and up to date.

G J Luden

Johannesburg Water (Proprietary) Limited
Company Secretary

Johannesburg
27 August 2010

Statement of Financial Position

Figures in Rand thousand	Note(s)	2010	2009 (restated)
ASSETS			
Current Assets			
Biological assets - held for resale	6	-	3,400
Inventories	7	35,605	31,820
Trade receivables with group companies	8	164	3
Loans to shareholder	9	399,037	399,430
Other receivables	10	9,626	10,677
Consumer debtors	11	912,547	855,497
Cash and cash equivalents	13	24	27
		1,357,003	**1,300,854**
Non-Current Assets			
Biological assets - breeding stock	5	-	5,976
Property, plant and equipment	3	4,904,977	4,418,342
Intangible assets	4	22,606	27,649
		4,927,583	**4,451,967**
Total Assets		**6,284,586**	**5,752,821**
LIABILITIES			
Current Liabilities			
Trade payables with group companies	8	5,908	7,359
Short term portion of long term loans from shareholder	9	328,496	278,462
Trade and other payables	18	1,092,959	851,109
		1,427,363	**1,136,930**
Non-Current Liabilities			
Loans from shareholder	8	2,067,228	2,014,117
Retirement benefit obligation	15	84,823	88,141
Unspent conditional grants	16	7,538	13,483
Deferred income	17	16,001	10,666
		2,175,590	**2,126,407**
Total Liabilities		**3,602,953**	**3,263,337**
Net Assets		**2,681,633**	**2,489,484**
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		2,681,632	2,489,483
Total Net Assets		**2,681,633**	**2,489,484**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Revenue	20	3,993,057	3,664,962
Cost of sales		(1,769,720)	(1,644,447)
Gross surplus		**2,223,337**	**2,020,515**
Other income	21	238,265	283,985
Operating expenses		(2,030,209)	(1,908,255)
Operating surplus	22	**431,393**	**396,245**
Interest revenue	27	19,804	43,671
Effective interest rate adjustment	28	8,608	13,461
Finance costs	29	(267,656)	(253,074)
Surplus for the year		**192,149**	**200,303**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share Capital	Accumulated Surplus	Total Equity
Opening balance as previously reported		1	1,760,544	1,760,545
Prior year adjustments	36.2		528,636	528,636
Balance at 01 July 2008 - restated		**1**	**2,289,180**	**2,289,181**
Surplus for the year - restated			200,303	200,303
Surplus for the year as previously reported			162,571	162,571
Prior year adjustment	36.2		37,732	37,732
Balance at 01 July 2009 - restated		**1**	**2,489,483**	**2,489,484**
Surplus for the year			192,148	192,148
Balance at 30 June 2010		**1**	**2,681,631**	**2,681,632**
Note(s)		14		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2010	2009 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from customers		3,954,602	3,736,730
Interest revenue	27	19,804	43,671
		3,974,406	3,780,401
Payments			
Cash paid to suppliers and employees		(3,242,860)	(3,337,291)
Finance costs	29	(267,656)	(253,074)
		(3,510,516)	(3,590,365)
Net cash flows from operating activities	31	**463,890**	**190,036**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(567,748)	(651,666)
Proceeds from disposal of property, plant and equipment	3	1,009	408
Purchase of intangible assets	4	(6,027)	(1,138)
Net cash flows from investing activities		**(572,766)**	**(652,396)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in deferred income		5,335	(69,851)
Net movement in loans with Shareholder	9	103,538	532,212
Net cash flows from financing activities		**108,873**	**462,361**
Net increase/(decrease) in cash and cash equivalents		**(3)**	**1**
Cash and cash equivalents at the beginning of the year		27	26
Cash and cash equivalents at the end of the year	13	**24**	**27**

Summary of Accounting Policies

1. Basis of preparation

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Local Government: Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973.

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

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value and biological assets at fair value less point of sale costs, and incorporate the principal accounting policies set out below.

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

1.1 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. Significant judgements and estimation uncertainty includes:

Useful lives of waste water, water networks and other non-current assets

The company's management determines the estimated useful lives and related depreciation charges for the waste water, water networks and other non-current assets. This estimate is based on an industry norm. Management will adjust the depreciation charge where the useful lives of these assets have changed from the previous estimate.

Property, plant and equipment and other non-current, and intangible assets, are reviewed annually by management for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Post retirement benefits

The present value of the post retirement obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include a discount rate, rate of increase in employer post retirement medical contribution and expected increase in salaries. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appropriate discount rate at the end of each financial year is determined by the actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement obligations. In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement liability.

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The company used a risk free interest rate to discount revenue and expenditure that have impacted on trade and other payables, trade payables with group companies, consumer debtors, other receivables, trade receivables with group companies and loans to and from shareholder.

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for debt impairment of consumer debtors

The allowance for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Management utilises judgement in evaluating credit risk related to customers. Judgement is based on various factors including, but not limited to, historical information available.

Provision for credit notes

Provision is made for revenue, recognised in the current year, that may need to be reversed in the next financial year. The calculation of the provision is based on various factors including historical information.

Valuation of water stock

The value of water held at year end is based on estimated water levels multiplied by the cost of water at that date.

1.2 Biological assets - breeding stock

Stock held for resale and breeding stock are measured at their fair value less estimated point-of-sale costs.

The fair value is determined based on market prices of livestock of similar age, breed, and genetic merit, sold during the course of the year.

Management reviews the biological assets on a regular basis to determine which assets are to be held as breeding stock, and those to be sold.

1.3 Property, plant and equipment

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

- it is probable that future economic benefits associated with the item will flow to the company, and
- the cost of the item can be measured reliably.

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 part 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.

Property, plant and equipment transferred to the company by developers at no cost to the company is recognised as an asset when the project is signed off and approved by the company. The asset is recorded at fair value to construct the asset as indicated by the developer.

Cost model

Property, plant and equipment excluding land and capital work-in-progress, which is held for use in the production or supply of goods or services or for administrative purposes are stated in the Statement of Financial Position at cost less accumulated depreciation and any impairment losses. Depreciation commences when the assets are ready for their intended use.

Capital work-in-progress is carried at cost, and depreciated from the date the assets are technically complete, i.e. ready for intended use. Capital work-in-progress is disclosed as a separate category of property, plant and equipment.

Day to day repairs and maintenance expenses are charged to the Statement of Financial Performance during the financial year in which they are incurred. The cost of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits will flow to the company and the cost of the items can be measured reliably.

Summary of Accounting Policies

1.3 Property, plant and equipment (continued)

Land is regarded as having an indefinite useful life. Depreciation is provided on all property, plant and equipment other than land and capital work-in-progress, to write down the cost, less estimated residual value, on a straight line basis over their estimated useful lives as follows:

Item	Average useful life
Buildings	5 - 30 years
Communication equipment	2 - 7 years
Farming machinery	3 - 10 years
Furniture and Fixtures	5 - 12 years
Computer equipment	5 - 15 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 7 years
Minor plant	5 - 10 years
Office equipment	5 - 12 years
Plant and machinery	10 - 40 years
Waste water and water networks	
• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 12 years
• Water meters	4 - 10 years
• Pipelines and other	60 - 100 years

The residual values, depreciation methods and useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The surplus or deficit arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The surplus or deficit arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost and comprise of computer software and servitudes.

Cost model

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. For all other intangible assets amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed each year-end.

By their nature, servitudes confer upon the holder a right in perpetuity over the property and as these rights have an indefinite useful life, they are not amortised.

Summary of Accounting Policies

1.4 Intangible assets (continued)

An item of intangible assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The surplus or deficit arising from the derecognition of an item of intangible assets is included in the surplus or deficit when the item is derecognised. The surplus or deficit arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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

Item	**Useful life**
Computer software	3 - 6 years

1.5 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised initially at fair value and, in the case of instruments not at fair value through profit or loss, including directly attributable transaction costs.

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

Management establishes fair value for financial instruments by using certain valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and relying as little as possible on entity-specific inputs. The carrying amount of the financial instruments are a reasonable approximation of their values.

Loans and receivables

Loans and receivables comprise trade receivables with group companies, loans to shareholder, other receivables, consumer debtors and cash and cash equivalents. Loans and receivables are subsequently measured at amortised costs using the effective interest method.

Financial liabilities

Financial liabilities at amortised cost comprise trade payables with group companies, trade and other payables and loans from shareholder. These liabilities are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand.

Impairment of Financial Assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments (more than 90 days overdue), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for

Summary of Accounting Policies

1.5 Financial instruments (continued)

impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. Financial liabilities are removed from the statement of Financial Position when, and only when, they are extinguished, i.e. when the obligations specified in the contract are discharged or cancelled or expire.

Gains and losses for Financial Assets

Gains and losses are recognised in the statement of financial performance when the asset is derecognised or impaired as well as through the amortisation process.

Gains and losses for Financial Liabilities

Gains and losses are recognised in the statement of financial performance when the liability is derecognised as well as through the amortisation process.

1.6 Income Tax

The company is an exempt entity in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962. As a result of the exemption no income tax has been provided for in the current financial year.

1.7 Leases

Finance leases - lessee

Finance leases are recognised as assets in the Statement of Financial Position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases - lessor

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place. Contingent rentals are expensed as incurred.

1.8 Inventories

Inventories consist of materials, components, fuel on hand and water stock.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula.

Summary of Accounting Policies

1.8 Inventories (continued)

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.

When inventories are utilised or consumed, the carrying amount of those inventories are recognised as an expense in the period. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. Reversals of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of non-financial assets

Property, plant and equipment and other non-current, and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the company estimates the assets recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount.

1.10 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans

The majority of the company's employees are members of various defined contribution plans. A defined contribution plan is a retirement plan under which the company pays fixed contributions into separate trustee administered funds.

The company's contributions to the defined contribution plans are charged to the Statement of Financial Performance in the financial year to which they relate.

The company has no further payment obligations once the contributions have been paid.

Defined benefit plans

The minority of the company's employees are members of various defined benefit plans, the assets of which are held in separate trustee administrated funds. These retirement funds are generally funded by payments from employees, the company and the City of Johannesburg Metropolitan Municipality. These plans are not funded by any plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

For defined benefit plans, the accounting costs are assessed and charged to the Statement of Financial Performance. The obligation is measured at the present value of the estimated future cash flows using interest rates of government

1.10 Employee benefits (continued)

securities that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses and past service costs are charged to the Statement of Financial Performance as the costs occur.

Other post retirement obligations

The company provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. These plans are not funded by any plan assets.

The entitlement to post-retirement health care benefits, gratuities and housing subsidies is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations using the projected unit credit method of these obligations on an annual basis. Actuarial gains and losses and past service costs are charged to the Statement of Financial Performance as the costs occur.

1.11 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised.

1.12 Deferred income - Bullk service contributions

Bulk service contributions are received by the company from developers for the potential expansion and/or augmentation of infrastructure relating to the provision of water and sanitation services to the development. When received the amounts are recorded as deferred income and credited to the Statement of Financial Performance when the expansion and/or augmentation actually takes place.

1.13 Government Grants

Government grants received are recognised as revenue, except to the extent that a liability is recognised with regards to conditions that give rise to a present obligation on the initial recognition of the asset. In cases that a liability is recognised, the carrying amount of the liability is reduced and the amount is recognised as revenue to the extent that the company satisfies the stipulated present obligations.

1.14 Revenue

Revenue comprises the invoiced value of sales in respect of operations in the provision of water and wastewater services and excludes investment and other income and value-added tax (VAT). Revenue from the distribution of water and the provision of sanitation services is recognised as and when the service has been provided. Average consumption is invoiced when meter readings have not been performed.

Deemed consumption areas are billed based on between 5kl and 20kl of water per stand per month, regardless of actual consumption.

Revenue is measured at the fair value of the consideration received or receivable excluding rebates and represents the amounts receivable for goods and services provided in the normal course of business.

1.15 Finance income

Finance income is recognised on a time-proportion basis using the effective interest method.

Summary of Accounting Policies

1.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

Figures in Rand thousand | 2010 | 2009 (restated)

2. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

At the date of authorisation of these Annual Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

- GRAP 18 - Segment reporting.
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from non-exchange transactions (Taxes and Transfers)
- GRAP 24 - Presentation of budget information in financial statements
- GRAP 25 - Employee benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 103 - Heritage assets
- GRAP 104 - Financial instruments

The principles incorporated in GRAP 23 - Revenue from non-exchange transactions have already been incorporated in the accounting policy for government grants (refer accounting policy 1.13).

The other standards are in line with existing standards applied by the company and have no material financial impact on the annual financial statements presented.

3. PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	10,367	-	10,367	10,367	-	10,367
Buildings	267,118	(189,095)	78,023	256,762	(166,407)	90,355
Plant and machinery	1,105,903	(290,598)	815,305	995,951	(244,025)	751,926
Furniture and fixtures	10,684	(5,930)	4,754	10,944	(5,329)	5,615
Motor vehicles	427	(273)	154	427	(247)	180
Office equipment	14,706	(4,860)	9,846	10,075	(3,933)	6,142
Computer equipment	51,489	(29,010)	22,479	48,491	(22,937)	25,554
Capital work in progress	729,261	-	729,261	771,905	-	771,905
Communication equipment	17,119	(13,021)	4,098	15,982	(11,418)	4,564
Farming machinery	8,032	(6,963)	1,069	7,653	(6,313)	1,340
Laboratory equipment	25,005	(16,794)	8,211	24,468	(12,959)	11,509
Minor plant	58,667	(34,122)	24,545	53,285	(29,224)	24,061
Wastewater network	1,260,814	(95,749)	1,165,065	1,126,619	(81,114)	1,045,505
Water network	2,249,921	(218,121)	2,031,800	1,838,516	(169,197)	1,669,319
Total	**5,809,513**	**(904,536)**	**4,904,977**	**5,171,445**	**(753,103)**	**4,418,342**

Notes to the Annual Financial Statements

Figures in Rand thousand

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10,367	-	-	-	-	-	10,367
Buildings	90,355	1,189	-	9,178	-	(22,699)	78,023
Plant and machinery	751,926	24,963	-	84,989	-	(46,573)	815,305
Furniture and fixtures	5,615	239	(295)	248	-	(1,053)	4,754
Motor vehicles	180	-	-	-	-	(26)	154
Office equipment	6,142	4,401	(26)	313	-	(984)	9,846
Computer equipment	25,554	276	(497)	3,795	-	(6,649)	22,479
Capital work in progress	771,905	349,028	-	(391,672)	-	-	729,261
Communication equipment	4,564	769	-	415	-	(1,650)	4,098
Farming machinery	1,340	-	-	54	-	(325)	1,069
Laboratory equipment	11,509	447	-	90	-	(3,835)	8,211
Minor plant	24,061	5,242	(10)	391	-	(5,139)	24,545
Wastewater network	1,045,505	39,596	-	55,909	38,689	(14,634)	1,165,065
Water network	1,669,319	141,598	-	234,971	34,835	(48,923)	2,031,800
	4,418,342	**567,748**	**(828)**	**(1,319)**	**73,524**	**(152,490)**	**4,904,977**

Land and buildings

Land and buildings to the value of R 88,390 (2009: R 100, 722) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water (Proprietary) Limited. A register containing the information required in terms of paragraph 22(3) of schedule 4 of the Companies Act is available for inspection at the registered office of the company.

Notes to the Annual Financial Statements

Figures in Rand thousand

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10,367	-	-	-	-	-	10,367
Buildings	90,874	4,903	-	16,156	-	(21,578)	90,355
Plant and machinery	479,466	71,734	-	238,356	-	(37,630)	751,926
Furniture and fixtures	5,560	476	-	620	-	(1,041)	5,615
Motor vehicles	231	-	-	-	-	(51)	180
Office equipment	4,530	2,072	(107)	411	-	(764)	6,142
Computer equipment	12,134	9,221	(80)	9,218	-	(4,939)	25,554
Capital work in progress	856,455	472,337	-	(556,887)	-	-	771,905
Communication equipment	4,194	447	-	1,759	-	(1,836)	4,564
Farming machinery	864	1,044	-	87	-	(655)	1,340
Laboratory equipment	6,620	3,367	-	4,188	-	(2,666)	11,509
Minor plant	20,073	8,254	(89)	540	-	(4,717)	24,061
Wastewater network	947,117	18,921	-	48,673	43,978	(13,184)	1,045,505
Water network	1,391,083	58,890	-	228,569	30,431	(39,654)	1,669,319
	3,829,568	**651,666**	**(276)**	**(8,310)**	**74,409**	**(128,715)**	**4,418,342**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

4. INTANGIBLE ASSETS

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Servitudes	901	-	901	901	-	901
Computer software	121,462	(99,757)	21,705	114,116	(87,368)	26,748
Total	**122,363**	**(99,757)**	**22,606**	**115,017**	**(87,368)**	**27,649**

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	901	-	-	-	901
Computer software	26,748	6,027	1,319	(12,389)	21,705
	27,649	**6,027**	**1,319**	**(12,389)**	**22,606**

Reconciliation of intangible assets - 2009

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	901	-	-	-	901
Computer software	35,095	1,138	8,310	(17,795)	26,748
	35,996	**1,138**	**8,310**	**(17,795)**	**27,649**

Figures in Rand thousand	2010	2009 (restated)

5. BIOLOGICAL ASSETS - BREEDING STOCK

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Breeding stock	-	-	-	5,976	-	5,976

Reconciliation of biological assets - breeding stock - 2010

	Opening balance	Disposals	Transfers	Gains or losses arising from changes in fair value	Gains or losses arising from biological transformation	Total
Breeding stock	**5,976**	**-**	**(5,976)**	**-**	**-**	**-**

Reconciliation of biological assets - breeding stock - 2009

	Opening balance	Disposals	Transfers	Gains or losses arising from changes in fair value	Gains or losses arising from biological transformation	Total
Breeding stock	**4,474**	**(1,116)**	**-**	**1,089**	**1,529**	**5,976**

Non - Financial information

Quantities of each biological asset - breeding stock	2010	2009
Bulls	-	22
Breeding heifers	-	263
Cows	-	674
	-	**959**

Methods and assumptions used in determining fair value

The fair value of livestock is determined based on market prices of livestock of a similar age, breed, and genetic merit, sold on auction during that year. All activities relating to livestock have ceased in the 2010 financial year.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

6. BIOLOGICAL ASSETS - HELD FOR RESALE

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Stock held for resale	-	-	-	3,400	-	3,400

Reconciliation of biological assets - held for resale - 2010

	Opening Balance	Decreases due to sales	Transfers	Gains or losses arising from changes in fair value	Gains or losses arising from biological transformation	Total
Stock held for resale	**3,400**	**(13,671)**	**5,976**	**470**	**3,825**	**-**

Reconciliation of biological assets - held for resale - 2009

	Opening Balance	Decreases due to sales	Transfers	Gains or losses arising from changes in fair value	Gains or losses arising from biological transformation	Total
Stock held for resale	**3,434**	**(1,874)**	**-**	**(373)**	**2,213**	**3,400**

Non – Financial information

Quantities of each biological asset - Held for resale

	2010	2009
Bulls	-	74
Calves	-	74
Weaners	-	568
	-	**716**

Methods and assumptions used in determining fair value

The fair value of livestock is determined based on market prices of livestock of a similar age, breed, and genetic merit, sold on auction during that year. All activities relating to livestock have ceased in the 2010 financial year.

7. INVENTORIES

	2010	2009
Material, components and fuel	31,364	27,483
Water	6,562	5,988
Subtotal	37,926	33,471
Provision for obsolescence	(2,321)	(1,651)
	35,605	**31,820**

Inventory consists of spares and consumables which will be utilised by the company in its daily business operations, as well as stock of water. The stock of water is computed based on volumes at year end in the water network, water towers and reservoirs.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

8. TRADE RECEIVABLES AND PAYABLES WITH GROUP COMPANIES

Fellow subsidiaries

City Power Johannesburg (Pty) Ltd	-	(232)
Johannesburg City Parks	(615)	(359)
Johannesburg Roads Agency (Pty) Ltd	(5,293)	(6,587)
Pikitup Johannesburg (Pty) Ltd	164	(181)
The Johannesburg Zoo	-	3
	(5,744)	**(7,356)**

The above loans are short term, unsecured and interest free.

Current assets	164	3
Current liabilities	(5,908)	(7,359)
	(5,744)	**(7,356)**

Credit quality of trade receivables with group companies

The credit quality of trade receivables with group companies that are neither past due nor impaired are considered fair by the company taking into account the historical information available and due to the fact that there has been no default in the past.

Fair value of trade receivables and payables with group companies

Trade receivables and payables with group companies	(5,744)	(7,356)

The trade receivables and payables with group companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

Trade receivables with group companies past due but not impaired

There are no trade receivables with group companies which are past due.

9. LOANS TO/FROM SHAREHOLDER

City of Johannesburg Metropolitan Municipality - Other loans	24,639	95,390
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(1,875,790)	(1,707,651)
City of Johannesburg Metropolitan Municipality - Post retirement benefit	80,721	81,331
City of Johannesburg Metropolitan Municipality - Capex drawdown	44,834	62,372
City of Johannesburg Metropolitan Municipality - Sweeping account	248,843	160,337
City of Johannesburg Metropolitan Municipality - Shareholder loans	(519,934)	(584,928)
	(1,996,687)	**(1,893,149)**

Other loans and the Capex drawdown are short term, unsecured and interest free.

Current assets	399,037	399,430
Non-current liabilities	(2,067,228)	(2,014,117)
Current liabilities (Short term portion of long term loans)	(328,496)	(278,462)
	(1,996,687)	**(1,893,149)**

The terms of loans to shareholder have not been renegotiated in the current or prior period.

Figures in Rand thousand	2010	2009 (restated)

9. LOANS TO/FROM SHAREHOLDER (continued)

Fair value of loans to and from shareholder

Loans to shareholder	399,037	399,430
Loans from shareholder	(2,462,996)	(1,998,947)

Loans to shareholder past due but not impaired

Loans to shareholder which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R3 (2009: R 733) were past due but not impaired.

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

30 days past due	3	733

9.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the begining of the year	(1,707,651)	(1,367,505)
New loans	(402,890)	(523,029)
Repayments	234,751	182,883
Balance at end of year	**(1,875,790)**	**(1,707,651)**

These unsecured loans bear interest at a nominal annual rate of 6,35% to 14,33% (2009: 8,45% to 14,33%) compounded monthly and are repayable in equal quarterly installments over a period of ten years. The commencement date of the capital repayments vary from 2001 to 2010.

9.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at begining of the year	(584,928)	(649,923)
Repayments	64,995	64,995
Balance at the end of the year	**(519,933)**	**(584,928)**

The unsecured loans bear interest at a nominal annual rate of 14,5% to 15% (2009: 14,5% to 15%) compounded monthly and are repayable in equal quarterly installments over a period of 10 years. The quarterly capital repayments commenced in 2009.

9.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	248,843	160,337

The bank sweeping account is an unsecured interest bearing loan to the shareholder with no fixed repayment terms. The loan earns interest at a variable rate which was 6.28% at the reporting date.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

10. OTHER RECEIVABLES

Sundry debtor	12,621	13,208
Allowance for debt impairment	(2,995)	(2,531)
Total other receivables	**9,626**	**10,677**

Credit quality of other receivables

Other receivables comprise of the recovery of sundry services. Management evaluates credit risk relating to these customers on an ongoing basis. The credit quality of other receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Other receivables past due but not impaired

Other receivables which are less than 6 months past due are not considered to be impaired. At 30 June 2010, R 1,313 (2009 : R 29) were past due but not impaired.

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

60 days past due	1,313	28
90 days past due	-	1

Other receivables impaired

As of 30 June 2010, other receivables of R 12,621 (2009: R 13,208) were considered for impairment testing. The allowance for impairment losses was R 2,995 as of 30 June 2010 (2009: R 2,531).

The classification and respective ageing categories considered by management during the testing for impairment are as follows:

Current (0 - 30 days)	8,313	10,648
31 - 60 days	-	-
61 - 90 days	1,313	28
91 - 120 days	-	1
121 - 365 days	2,995	2,531
> 365 days	-	-
Total other receivables	**12,621**	**13,208**

Reconciliation of allowance for debt impairment of other receivables

Opening balance	2,531	19
Allowance for impairment losses	464	2,512
	2,995	**2,531**

The creation and release of the allowance for debt impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (note24). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Figures in Rand thousand	2010	2009 (restated)

11. CONSUMER DEBTORS

Trade receivables	4,168,432	3,633,226
Allowance for debt impairment	(3,255,885)	(2,777,729)
	912,547	**855,497**

A debt impairment is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Accordingly, an impairment loss is recognised based on the ageing as well as the profile of debtors. The terms of the trade and other receivables have not been renegotiated during the current or prior period.

In terms of the prepayment metering project, consumers that met certain criteria with respect to the installation of prepaid meters, had their accumulated debt written off. The amount written off for these consumers amounted to R 282,106 (2009: R 121,343). Poor payment levels in deemed consumption areas are being addressed as part of the company's prepayment meter roll out programme.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Summary of consumer debtors by classification

Domestic consumers		
Current (0 - 30 days)	310,053	202,524
31 - 60 days	113,996	148,814
61 - 90 days	123,948	104,581
91 - 120 days	120,046	92,429
121 - 365 days	519,593	541,543
> 365 days	1,501,745	1,622,938
	2,689,381	2,712,829
Less: Allowance for debt impairment	(2,141,385)	(2,203,654)
	547,996	**509,175**

Domestic consumers - Past due and impaired		
Current (0 - 30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	(120,046)	(90,248)
121 - 365 days	(519,593)	(528,764)
> 365 days	(1,501,746)	(1,584,642)
	(2,141,385)	**(2,203,654)**

Domestic consumers - Past due and not impaired		
Current (0 - 30 days)	310,053	202,524
31 - 60 days	113,996	148,814
61 - 90 days	123,947	104,581
91 - 120 days	-	2,181
121 - 365 days	-	12,779
> 365 days	-	38,296
	547,996	**509,175**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)
11. CONSUMER DEBTORS (continued)		
Commercial consumers		
Current (0 - 30 days)	172,226	211,755
31 - 60 days	65,650	42,689
61 - 90 days	55,974	36,457
91 - 120 days	66,303	28,688
121 - 365 days	364,704	183,021
> 365 days	719,456	264,119
	1,444,313	766,729
Less: Allowance for debt impairment	(1,088,578)	(464,599)
	355,735	**302,130**
Commercial consumers - Past due and impaired		
Current (0 - 30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	(45,122)	(28,011)
121 - 365 days	(324,000)	(178,702)
> 365 days	(719,456)	(257,886)
	(1,088,578)	**(464,599)**
Commercial consumers - Past due and not impaired		
Current (0 - 30 days)	172,226	211,756
31 - 60 days	65,650	42,689
61 - 90 days	55,974	36,457
91 - 120 days	21,181	677
121 - 365 days	40,704	4,319
> 365 days	-	6,232
	355,735	**302,130**
National and provincial government		
Current (0 - 30 days)	5,131	21,308
31 - 60 days	2,011	12,881
61 - 90 days	1,674	7,358
91 - 120 days	1,727	7,144
121 - 365 days	8,429	44,904
> 365 days	15,766	60,073
	34,738	153,668
Less: Allowance for debt impairment	(25,922)	(109,476)
	8,816	**44,192**
National and provincial government - Past due and impaired		
Current (0 - 30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	(1,727)	(6,976)
121 - 365 days	(8,429)	(43,844)
> 365 days	(15,766)	(58,656)
	(25,922)	**(109,476)**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

11. CONSUMER DEBTORS (continued)

National and provincial government - Past due and not impaired		
Current (0 - 30 days)	5,131	21,307
31 - 60 days	2,011	12,880
61 - 90 days	1,674	7,358
91 - 120 days	-	169
121 - 365 days	-	1,060
> 365 days	-	1,418
	8,816	**44,192**

Total consumer debtors		
Current (0 -30 days)	487,410	435,587
31 - 60 days	181,657	204,384
61 - 90 days	181,596	148,396
91 - 120 days	188,076	128,261
121 - 365 days	892,726	769,468
> 365 days	2,236,967	1,947,130
	4,168,432	3,633,226
Less: Allowance for debt impairment	(3,255,885)	(2,777,729)
	912,547	**855,497**

Total consumer debtors - Past due and impaired		
Current (0 - 30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	(166,895)	(125,235)
121 - 365 days	(852,022)	(751,310)
> 365 days	(2,236,968)	(1,901,184)
	(3,255,885)	**(2,777,729)**

Total consumer debtors - Past due but not impaired		
Current (0 - 30 days)	487,410	435,587
31 - 60 days	181,657	204,383
61 - 90 days	181,595	148,396
91 - 120 days	21,181	3,027
121 - 365 days	40,704	18,158
> 365 days	-	45,946
	912,547	**855,497**

Reconciliation of allowance for debt impairment		
Balance at beginning of the year	(2,777,729)	(3,767,509)
Contributions to allowance	(738,707)	(683,934)
Debt impairment written off against allowance	260,551	1,673,714
	(3,255,885)	**(2,777,729)**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

12. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Non-financial assets	Total
Loans to shareholder	399,037	-	399,037
Consumer debtors	914,270	-	914,270
Other receivables	6,102	-	6,102
Cash and cash equivalents	24	-	24
Effective interest rate adjustment	-	(1,723)	(1,723)
Prepayments	-	3,524	3,524
Trade receivables with group companies	164	-	164
	1,319,597	**1,801**	**1,321,398**

2009

	Loans and receivables	Non-financial assets	Total
Loans to shareholder	399,430	-	399,430
Consumer debtors	858,071	-	858,071
Other receivables	5,311	-	5,311
Cash and cash equivalents	27	-	27
Effective interest rate adjustment	-	(2,575)	(2,575)
Prepayments	-	5,365	5,365
Trade receivables with group companies	3	-	3
	1,262,842	**2,790**	**1,265,632**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2010	2009
Cash on hand	24	27

The company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder. The amount due at 30 June 2010 is R248 million (2009: R160 million).

14. CONTRIBUTION FROM SHAREHOLDER

	2010	2009
Authorised		
1000 Ordinary shares of R1 each	1	1
Issued		
200 Ordinary shares of R1 each	1	1

Figures in Rand thousand		2010	2009 (restated)

15. RETIREMENT BENEFIT OBLIGATION

The actuarial valuations were performed by Independent Actuarial Consultants, who are independent post retirement plan administrators. It was concluded that the defined benefit plan was in a sound financial position, taking into account the loan receivable (note 9) from the City of Johannesburg Metropolitan Municipality, to cover the liability. In terms of the Sale of Business agreement, the City of Johannesburg Metropolitan Municipality is responsible for the liability for the post retirement benefit plans.

Post-retirement liability			
Provision:Post-Retirement Medical Obligation	14.1	37,076	39,975
Provision:Post-Retirement Housing Subsidy obligation	14.2	48	63
Provision:Post-Retirement Gratuity Obligation	14.3	47,699	48,103
Balance at end of year		**84,823**	**88,141**

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 46 employees (2009: 76 employees), and 29 continuation members (2009: 31 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit funding method.

Reconciliation of post retirement medical aid plan

Opening balance	39,975	38,042
Benefits paid	(706)	(748)
Current service costs	798	798
Interest costs	3,357	3,197
Actuarial gain	(6,348)	(1,314)
Balance at end of year	**37,076**	**39,975**

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Discount rates used	9.00 %	8.40 %
Rates of increase in employer post retirement medical contribution	7.40 %	6.80 %
Expected increase in salaries	5.90 %	6.80 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement medical aid plan liability.

A sensitivity analysis with respect to a 1% change in the discount rate will have the following impact:

1% increase - R3,517 increase in overall liability

1% decrease - R4,265 decrease in overall liability

Figures in Rand thousand	2010	2009 (restated)

15. RETIREMENT BENEFIT OBLIGATION (continued)

15.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 3 employees (2009: 4 employees). Actuarial valuations are independently prepared annually using the projected unit funding method.

Reconciliation of post retirement housing subsidy plan

Opening balance	63	93
Current service costs	2	2
Interest costs	5	9
Actuarial gain	(22)	(41)
Balance at end of year	**48**	**63**

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Discount rates used	9.00 %	8.40 %
Expected increase in salaries	5.90 %	6.80 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement housing subsidy plan liability.

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 380 employees (2009: 417 employees). Actuarial valuations are independently prepared annually using the projected unit funding method.

Reconciliation of post retirement gratuity plan

Opening balance	48,103	49,913
Benefits paid	(5,928)	(5,626)
Interest Cost	4,041	4,475
Actuarial (gain) /loss	1,483	(659)
Balance at end of year	**47,699**	**48,103**

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Discount rates used	9.00 %	8.40 %
Expected increase in salaries	5.90 %	6.80 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement gratuity plan liability.

15.4 Defined contribution plan

The company's liability is limited to its contributions to the plan.

The total group contribution to such schemes	43,714	41,610

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

16. UNSPENT CONDITIONAL GRANTS

Unspent conditional grants comprise:

Government grants	7,538	13,483

Government grants movement during the year

Balance at the beginning of the year	13,483	-
Received in current year	108,798	118,905
Utilised during the year	(114,743)	(105,422)
Balance at the end of the year	**7,538**	**13,483**

17. DEFERRED INCOME

Deferred income comprises:

Bulk Service Contributions	16,001	10,666

Bulk service contributions movement during the year

Balance at the beginning of the year	10,666	80,517
Received in current year	31,814	19,617
Utilised during the year	(26,479)	(89,468)
Balance at the end of the year	**16,001**	**10,666**

18. TRADE AND OTHER PAYABLES

Trade payables	651,478	396,301
Payments received in advance	236,965	227,051
Accrued leave pay	30,081	28,300
Accrued bonus	17,588	16,691
Operating lease payables	8,666	7,481
Sundry Creditors	4,621	8,551
VAT	107,492	132,869
Consumer deposits	36,068	33,865
	1,092,959	**851,109**

The above are short term, unsecured and interest free.

18.1. Trade payables

Gross trade payables	652,443	397,883
Effective interest rate adjustment	(965)	(1,582)
	651,478	**396,301**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

19. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2010

	Financial liabilities	Non-financial liabilities	Total
Trade payables with group companies	5,908	-	5,908
Loans from shareholder	2,395,723	-	2,395,723
Trade and other payables	742,571	-	742,571
Payments in advance	-	236,965	236,965
VAT	-	107,492	107,492
PAYE	-	6,896	6,896
Effective interest rate adjustment	-	(965)	(965)
	3,144,202	**350,388**	**3,494,590**

2009

	Financial liabilities	Non-financial liabilities	Total
Trade payables with group companies	7,359	-	7,359
Loans from shareholder	2,292,579	-	2,292,579
Trade and other payables	486,898	-	486,898
Payments in advance	-	227,051	227,051
VAT	-	132,869	132,869
PAYE	-	5,869	5,869
Effective interest rate adjustment	-	(1,582)	(1,582)
	2,786,836	**364,207**	**3,151,043**

20. REVENUE

	2010	2009
Rendering of services	3,993,057	3,664,962

21. OTHER INCOME

	2010	2009
Other income	23,334	14,552
Developer funded asset income	73,525	74,409
Government grants released	114,743	105,422
Profit on disposal of property, plant and equipment	184	134
Bulk service contributions released	26,479	89,468
	238,265	**283,985**

Notes to the Annual Financial Statements

Figures in Rand thousand		2010	2009 (restated)

22. EXPENSES BY NATURE

Operating surplus for the year is stated after accounting for the following:

		2010	2009
Operating lease charges - Contractual amounts			
Premises		17,208	19,097
Motor vehicles		68,933	66,379
Equipment		2,123	2,213
		88,264	**87,689**
Operating expenses			
Depreciation, amortisation and impairments		164,880	146,507
Employee costs	26	595,169	537,303
Allowance for debt impairment	24	620,302	495,481
Bulk purchases	25	124,133	95,808
Consumables		73,812	67,216
Insurance		9,530	8,388
Legal expenses		5,114	4,730
Repairs and maintenance		9,126	7,643
Security		18,984	18,325
Billing and meter reading charges		62,179	58,449

23. AUDITORS REMUNERATION

	2010	2009
Fees	4,105	3,020

24. ALLOWANCE FOR DEBT IMPAIRMENT (BAD DEBTS)

	2010	2009
Allowance for debt impairment	685,210	603,315
Interest received	(64,908)	(107,834)
	620,302	**495,481**

25. BULK PURCHASES

	2010	2009
Electricity	92,564	64,038
Chemicals	31,569	31,770
	124,133	**95,808**

26. EMPLOYEE COSTS

		2010	2009
Basic		434,006	388,376
Other allowances		60,271	52,271
Pension costs	15	51,032	48,702
Medical aid - company contributions	15	32,777	26,185
Leave pay		10,054	10,325
Post retirement benefit plan cost	15	3,317	6,467
Housing benefits and allowances		3,712	4,977
		595,169	**537,303**

	2010	2009
Average number of employees employed during the year		
- Permanent	2,520	2,674

Notes to the Annual Financial Statements

Figures in Rand thousand		2010	2009 (restated)

27. INTEREST REVENUE

Interest earned - sweeping accounts		19,804	43,480
Other interest		-	191
		19,804	**43,671**

28. EFFECTIVE INTEREST RATE ADJUSTMENT

Effective interest rate adjustment - revenue		22,383	40,839
Effective interest rate adjustment - expenditure		(13,775)	(27,378)
		8,608	**13,461**

29. FINANCE COSTS

Interest paid - Shareholder loans		267,656	253,074

30. TAXATION

As the company is a water service provider it has been exempt from normal company taxation in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962, published in the Government Gazette.

31. CASH GENERATED FROM OPERATIONS

Surplus before taxation		192,149	200,303
Adjustments for:			
Depreciation and amortisation	3	164,880	146,507
Effective interest rate adjustment	28	(8,608)	(13,461)
Allowance for debt impairment	24	620,302	495,481
Movements in retirement benefit assets and liabilities	15	(3,318)	93
Other non-cash items		4,312	9,006
Profit on disposal of property, plant and equipment	21	(184)	(134)
Developer funded asset income	3	(73,524)	(74,409)
Changes in working capital:			
Inventories	7	(3,785)	(4,254)
Other receivables	10	1,051	(8,869)
Consumer debtors	11	(677,352)	(523,612)
Proceeds from biological assets	6	13,671	2,990
Trade and other payables	18	241,853	(49,160)
Unspent conditional grants	16	(5,945)	13,483
Net movement in balances with group companies	8	(1,612)	(3,928)
		463,890	**190,036**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

32. COMMITMENTS

Authorised capital expenditure

Already contracted for but not provided for		
Property, plant and equipment	331,432	413,007

This capital expenditure is to be financed from internally generated funds and from shareholder loans and grants as follows:

This expenditure will be financed from:		
Shareholder loans	257,032	336,551
Grant funding	64,400	39,996
Internal cash	10,000	36,460
	331,432	**413,007**

Operating leases - as lessee

Minimum lease payments due		
• within one year	47,855	65,350
• in second to fifth year inclusive	57,382	90,860
• later than five years	17,947	33,569
	123,184	**189,779**

Operating lease payments represent rentals payable by the company for certain of its office properties and fleet. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Lease agreements over office properties and fleet are subject to escalation clauses.

Figures in Rand thousand	2010	2009 (restated)

33. RELATED PARTIES

Relationships	
Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company (Pty) Ltd City Power Johannesburg (Pty) Ltd Johannesburg City Parks Johannesburg Development Agency (Pty) Ltd Johannesburg Metropolitan Bus Services (Pty) Ltd Johannesburg Roads Agency (Pty) Ltd Johannesburg Social Housing Company (Pty) Ltd Metropolitan Trading Company (Pty) Ltd Pikitup Johannesburg (Pty) Ltd The Johannesburg Civic Theatre (Pty) Ltd The Johannesburg Fresh Produce Market (Pty) Ltd The Johannesburg Zoo
Members of key management	Directors remuneration - Note 34
Other related parties	There were no related party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

	2010	2009
Related party balances		
Loan accounts - Owing by related parties		
City of Johannesburg Metropolitan Municipality	399,037	399,430
Loan accounts - owing to related parties		
City of Johannesburg Metropolitan Municipality	2,067,227	2,014,117
Short term portion of long term loans	328,496	278,462
	2,395,723	**2,292,579**

Related party balances

	2010	2009
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	470,620	407,157
Pikitup Johannesburg (Pty) Ltd - General	164	94
Pikitup Johannesburg (Pty) Ltd - Trade receivables	-	57
City Power Johannesburg (Pty) Ltd - Trade receivables	-	132
The Johannesburg Zoo - General	-	3
The Johannesburg Zoo - Trade receivables	-	361
Metropolitan Trading Company (Pty) Ltd - Trade receivables	-	567
The Johannesburg Civic Theatre (Pty) Ltd - Trade receivables	-	55
Johannesburg City Parks - Trade receivables	-	5,786
Johannesburg Roads Agency (Pty) Ltd - General	4	6
	470,788	**414,218**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

33. RELATED PARTIES (continued)

Amounts owing to related parties (excluding long term liabilities)		
City of Johannesburg Metropolitan Municipality	400,079	286,189
City of Johannesburg Metropolitan Municipality - Trade receivables	-	614
Pikitup Johannesburg (Pty) Ltd	-	275
City Power Johannesburg (Pty) Ltd	-	231
Johannesburg City Parks	615	359
Johannesburg Development Agency (Pty) Ltd	-	39
Johannesburg Roads Agency (Pty) Ltd	5,296	6,594
Johannesburg Roads Agency (Pty) Ltd - Trade receivables	-	1
	405,990	**294,302**

Related party transactions

Sales to related parties		
City of Johannesburg Metropolitan Municipality	12,960	10,892
Pikitup Johannesburg (Pty) Ltd	587	601
City Power Johannesburg (Pty) Ltd	1,470	1,071
The Johannesburg Zoo	2,224	2,532
Metropolitan Trading Company (Pty) Ltd	1,143	2,310
Johannesburg Civic Theatre (Pty) Ltd	210	538
Johannesburg City Parks	1,930	1,987
Johannesburg Development Agency (Pty) Ltd	(2,195)	14
Johannesburg Roads Agency (Pty) Ltd	25	25
The Johannesburg Fresh Produce Market (Pty) Ltd	5,315	7,318
	23,669	**27,288**

Purchases from related parties		
City of Johannesburg Metropolitan Municipality	77,904	69,116
Johannesburg Social Housing Company (Pty) Ltd	1,507	1,061
Pikitup Johannesburg (Pty) Ltd	2,543	2,952
City Power Johannesburg (Pty) Ltd	56,672	50,465
Johannesburg Roads Agency (Pty) Ltd	6,211	5,158
	144,837	**128,752**

All transactions with group companies are conducted at arms length.

Figures in Rand thousand	2010	2009 (restated)

34. DIRECTORS EMOLUMENTS

The emoluments paid to the directors and members of the Audit and Risk Committee is reflected hereunder.

Executive directors

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
G Dumas	1,307	139	330	177	1,953
V Padiaychee	941	96	144	152	1,333
	2,248	**235**	**474**	**329**	**3,286**

2009	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
G Dumas	1,204	727	330	169	2,430
V Padiaychee	877	157	144	135	1,313
	2,081	**884**	**474**	**304**	**3,743**

Non executive directors

Services rendered as director of company	2010	2009
Ms M van Rensburg	143	42
Mr N Macleod	39	137
Ms J Armstrong	-	51
Mr A Ngcobo	-	92
Dr N Mabuya	123	173
Ms MN Xorile	-	37
Mr N Govender	166	199
Ms N C Skeepers	131	130
Mr P K Dlamini	-	16
Mr T C Modipane	105	88
Ms N Msezane	109	35
Mr C Tilly	13	-
	829	**1,000**

Services rendered as member of committee	2010	2009
C Mbili	18	52
A Seedat	-	19
IB Skosana	-	-
Mr J Behr	51	15
Ms M Malope	64	15
	133	**101**

Figures in Rand thousand

34. DIRECTORS EMOLUMENTS (continued)

Persons serving on Senior Management

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	758	82	182	136	1,158
L Jiya	711	86	200	-	997
E Chikonyora	510	8	132	51	701
C O R Montoeli	111	123	25	17	276
	2,090	**299**	**539**	**204**	**3,132**

2009	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	627	117	182	128	1,054
V E Roos	506	-	20	17	543
L Jiya	600	71	200	-	871
L Ganzin	125	-	56	25	206
C O R Montoeli	571	97	150	93	911
	2,429	**285**	**608**	**263**	**3,585**

35. COMPARATIVES RESTATED

The comparative figures have been restated as a result of a prior year adjustment per note 36.

36. PRIOR YEAR ADJUSTMENTS

36.1 Deferred income - change in accounting policy

There was a change in the accounting policy for the treatment of Government Grants (refer note 43). The new accounting policy requires the grant to be recognised as revenue in the year that all conditions relating to the grant have been met. This has resulted in R566,368 being released to the statement of financial performance in the prior financial years. The financial impact of the revised treatment for the year ending 30 June 2010 is a credit of R 101,840 to other income, and the impact on the prior years is as follows:

	2009	**2008**
Impact on Statement of Financial Position		
Decrease in deferred income	(37,732)	(528,636)
Impact on Statement of Financial Performance		
Increase in other income	37,732	528,636
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	37,732	528,636

36.2 Cumulative Impact on Statement of Changes in Net Assets

The cumulative impact of the Statement of Changes in Net Assets as a result of the prior year adjustments listed above in note 36.1 is as follows:

	2009	**2008**
Impact on Statement of Changes in Net Assets	37,732	528,636

Figures in Rand thousand

37. RISK MANAGEMENT

Financial risk management

The company's overall risk management program, in conjunction with the shareholder, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out by a central treasury department at the shareholder under policies approved by the mayoral committee. The board of directors sanction a risk management policy which considers financial risk management within the organisation. The company has no exposure to foreign exchange risk.

Liquidity risk

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

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	588,961	563,885	1,360,501	950,998
Trade payables with group companies	5,744	-	-	-
Trade and other payables	742,571	-	-	-

At 30 June 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	539,607	526,690	1,337,283	1,012,559
Trade payables with group companies	7,356	-	-	-
Trade and other payables	486,898	-	-	-

Interest rate risk

As the company has no significant interest-bearing assets or liabilities subject to interest rate fluctuations, the company's income and operating cash flows are substantially independent of changes in market interest rates.

The company's only interest-bearing assets or liabilities subject to interest rate fluctuations is a portion of the shareholder's loan linked to the Jibar interest rate and the bank sweeping account with the shareholder. Other than these items, the company's income and operating cash flows are substantially independent of changes in market interest rates. The table below illustrates the likely cash flow risk to the company in the event the interest rate fluctuates. An increase / (decrease) in the interest rate at the reporting date would have increased / (decreased) the surplus by the amounts shown below.

Sensitivity analysis for interest rate risk

Financial instrument	**Current interest rate**	2010	2009
Bank sweeping (+1%)	6.28%	2,488	1,603
Bank sweeping (-1%)		(2,488)	(1,603)
Shareholder loan (Jibar linked) (+1%)	6.34%	(2,540)	(2,902)
Shareholder loan (Jibar linked) (- 1%)		2,540	2,902

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

37. RISK MANAGEMENT (continued)

Credit risk

Credit risk arise mainly from trade receivables with group companies, loans to shareholder, trade and other receivables and cash and cash equivalents. The company's cash resources are swept on a daily basis to the shareholder who manages the cash resources in a central treasury department.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note10 and 11.

38. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

There was no irregular, fruitless and wasteful expenditure during the year.

39. ACTUAL OPERATING EXPENDITURE VERSUS BUDGETED OPERATING EXPENDITURE

Refer to Annexure A for the comparison of actual operating expenditure versus budgeted expenditure.

40. ACTUAL CAPITAL EXPENDITURE VERSUS BUDGETED CAPITAL EXPENDITURE

	2010	2009
Capital budget for the the year	577,357	729,063
Actual spend for the year	(571,433)	(717,860)
	5,924	**11,203**
Actual spend as a percentage of budget	99.0 %	98.5 %

41. ACTUAL SURPLUS VERSUS BUDGETED SURPLUS

Refer to Annexure A for a detailed comparison of actual results versus budgeted results.

	2010	2009
Actual surplus for the year	192,159	200,301
Budget surplus for the year	(156,307)	(157,418)
	35,852	**42,883**

42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Audit fees

	2010	2009
Opening balance	526	657
Current year fee	4,127	2,997
Amount paid - current year	(4,120)	(2,471)
Amount paid - previous years	(526)	(657)
	7	**526**

PAYE and UIF

	2010	2009
Opening balance	5,845	4,984
Current year contributions	88,020	79,515
Amount paid - current year	(81,209)	(73,670)
Amount paid - previous years	(5,845)	(4,984)
	6,811	**5,845**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009 (restated)

42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

Pension and Medical Aid Contributions

Current year contributions	126,624	120,402
Amount paid - current year	(126,624)	(120,402)
	-	-

43. CHANGES IN ACCOUNTING POLICY

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) with the adoption of the following new or revised policies.

Items adopted that require no change in accounting policy:

- GRAP 4 The effects of changes in foreign exchange rates
- GRAP 6 Consolidated and separate financial statements
- GRAP 7 Investments in associates
- GRAP 8 Interest in joint ventures
- GRAP 9 Revenue from exchange transactions
- GRAP 10 Financial reporting in hyperinflationary economies
- GRAP 11 Construction contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the reporting date
- GRAP 16 Investment property
- GRAP 17 Property plant and equipment
- GRAP 19 Provisions, contingent liabilities and contingent assets
- GRAP 100 Non-current assets held for sale and discontinued operations
- GRAP 101 Agriculture
- GRAP 102 Intangible assets

Items adopted that require a change in accounting policy:

GRAP 5 - Borrowing Costs

The previous policy was to expense all borrowing costs as these costs are incurred. In terms of GRAP 5, borrowing costs relating to the construction of qualifying assets will now be capitalised.

The new accounting policy is as follows:

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Borrowing costs are capitalised for all qualifying assets where construction was commenced on or after 1 July 2009.

GRAP 23 - Revenue from Non-Exchange Transactions

The previous accounting policy, based on International Accounting Standard 20 (IAS 20), for government grants was as follows:
"Capital grants are recorded as deferred income when they become receivable and are recognised as income on a systematic basis over the periods necessary to match grants with the related costs, which they are intended to compensate. Capital grants on property, plant and equipment are credited on a straight-line basis to the Statement of Financial Performance based on the estimated useful life of the relevant property, plant and equipment.

Figures in Rand thousand	2010	2009 (restated)

43. CHANGES IN ACCOUNTING POLICY (continued)

The following accounting policy is adopted:

Government grants received are recognised as revenue, except to the extent that a liability is recognised with regards to conditions that give rise to a present obligation on the initial recognition of the asset. In cases that a liability is recognised, the carrying amount of the liability is reduced and the amount is recognised as revenue to the extent that the company satisfies the stipulated present obligations.

The above accounting policy is developed by considering the hierachy recommended in GRAP 3. In terms of this hierachy, the principles contained in GRAP 23 have been incorporated. This is not considered an early adoption of GRAP 23.

Annexure A - Operating budget vs Actual expenditure

Figures in Rand thousand

	Original Budget	Budget Adjustment	Final Budget	Actual	Variance	Variance %
Revenue	**4,125,647**	**-**	**4,125,647**	**4,014,588**	**(111,059)**	**(2.69%)**
Service charges	4,125,647	-	4,125,647	4,014,588	(111,059)	(2.69%)
Cost of sales	**(1,778,657)**	**-**	**(1,778,657)**	**(1,779,677)**	**(1,020)**	(0.06%)
Bulk purchases - water	(1,778,657)	-	(1,778,657)	(1,779,677)	(1,020)	(0.06%)
Gross margin	**2,346,990**	**-**	**2,346,990**	**2,234,912**	**(112,078)**	**(4.78%)**
Gross margin %	56.9%		56.9%	55.7%		
Other income	**88,460**	**-**	**88,460**	**238,264**	**149,804**	**169.35%**
Other revenue	88,460	-	88,460	238,264	149,804	169.35%
Expenditure	**(2,038,348)**	**26,718**	**(2,011,630)**	**(2,033,410)**	**(21,780)**	(1.08%)
Employee related costs	(682,642)	39,929	(642,712)	(595,169)	47,543	7.40%
Contracted services	(349,274)	3,745	(345,529)	(308,786)	36,742	10.63%
Consultancy fees	(10,843)	4,252	(6,591)	(5,128)	1,463	22.20%
General expenses - other	(344,470)	6,945	(337,525)	(329,965)	7,559	2.24%
Repairs and maintenance	(13,964)	5,180	(8,784)	(9,178)	(394)	(4.48%)
Depreciation	(189,732)	-	(189,732)	(164,880)	24,852	13.10%
Provision for bad debts	(447,423)	(33,334)	(480,757)	(620,302)	(139,545)	(29.03%)
Surplus before interest	**397,103**	**26,718**	**423,820**	**439,766**	**15,946**	**3.76%**
Net interest	**(267,513)**	**-**	**(267,513)**	**(247,852)**	**19,661**	7.35%
Interest income	5,000		5,000	19,804	14,804	296.07%
Interest expense	(272,513)	-	(272,513)	(267,656)	4,857	1.78%
Surplus before effective interest rate adjustment	**129,590**	**26,718**	**156,307**	**191,914**	**35,607**	**22.78%**
Net effective interest rate adjustment	9,415	(9,415)		235	235	
Surplus for the year	**139,005**	**17,303**	**156,307**	**192,148**	**35,841**	**22.93%**

Detailed Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Revenue	20	**3,993,057**	**3,664,962**
Cost of sales		**(1,769,720)**	**(1,644,447)**
Gross surplus		**2,223,337**	**2,020,515**
Other income	21	**238,265**	**283,985**
Government grants released		114,743	105,422
Bulk service contributions released		26,479	89,468
Developer funded asset income		73,525	74,409
Other income		23,518	14,686
Expenses (Refer to page 53)		**(2,030,209)**	**(1,908,255)**
Operating surplus		**431,393**	**396,245**
Finance costs	29	(267,656)	(253,074)
Interest revenue	27	19,804	43,671
Effective interest rate adjustment	28	8,608	13,461
Surplus for the year		**192,149**	**200,303**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Operating expenses			
Auditors remuneration	23	(4,105)	(3,020)
Allowance for debt impairment	24	(620,302)	(495,481)
Bank charges		(334)	(477)
Commission paid		(5,646)	(4,906)
Computer expenses		(9,274)	(11,038)
Legal expenses		(5,114)	(4,730)
Consumables		(73,812)	(67,216)
Entertainment		(952)	(615)
Insurance		(9,530)	(8,388)
IT expenses		(1,315)	(1,570)
Lease rentals on operating lease		(88,264)	(87,689)
Marketing and promotions		(10,217)	(11,589)
Motor vehicle expenses		(3,102)	(3,787)
Printing and stationery		(4,280)	(5,477)
Repairs and maintenance		(9,126)	(7,643)
Security		(18,984)	(18,325)
Subscriptions		(505)	(573)
Telephone and fax		(17,226)	(13,848)
Travel - local and overseas		(1,603)	(1,263)
Billing and meter reading charges		(62,179)	(58,449)
General operating expenses		(20,040)	(19,894)
Contracted services		(180,117)	(302,659)
Bulk purchases	25	(124,133)	(95,808)
Employee costs	26	(595,169)	(537,303)
Depreciation, amortisation and impairments		(164,880)	(146,507)
		(2,030,209)	**(1,908,255)**