Johannesburg Water (SOC) Limited
Audited Annual Financial Statements
for the year ended 30 June 2016

The preparation of these annual financial statements were supervised by:
B. Shongwe (Financial Director)

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	KPM Simelane (Chairperson) LT Dhlamini (Managing Director) CB Shongwe (Financial Director) ZD Hlatshwayo SN Khondlo JJH Mateya MP Matji K Mdutshane G Moloi C Motau NJ Motlabane
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
Controlling entity	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General of South Africa
Company Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie and Robertson

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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 71 of 2008, 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 of South Africa is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 71 of 2008 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 company relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

The management of the above functions is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and the company. The implemented processes and methods of operation are solely under the control and stewardship of the City of Johannesburg Metropolitan Municipality. This arrangement is managed in terms of a service level agreement underpinning the agency agreement.

Clause 13.3 of the Agency Agreement with the City of Johannesburg Metropolitan Municipality states that "The performance of the Customer Revenue Collection and Customer Relations Management functions shall be conducted and records thereof kept by the City of Johannesburg Metropolitan Municipality in such a manner as to ensure that the audited accounts of the Company are in no way qualified as a result of any act or omission connected with the execution of the Customer Revenue Collection and Customer Relations Management functions". The directors place full reliance on the internal controls as established by The City of Johannesburg Metropolitan Municipality in the execution of the Customer Billing and Revenue Collection and Customer Relations Management functions.

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 2017 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.

Directors' Responsibilities and Approval

The Auditor-General of South Africa is responsible for providing assurance and reporting on the company's annual financial statements.

The annual financial statements set out on pages 5 to 71, which have been prepared on the going concern basis, were approved by the Board on 29 November 2016 and were signed on their behalf by:

KPM Simelane (Chairperson)	**LT Dhlamini (Managing Director)**

Directors' Report

The directors submit their report for the year ended 30 June 2016.

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 as well as the treatment of wastewater and operates principally in South Africa.

The company continues to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

The implementation of the project to centralise the customer call centre, billing and credit control functions in the 2010 financial year has resulted in significant challenges in the performance of all migrated functions. The board of directors have continued to express their concern to the Shareholder, and have been assured that the challenges are being addressed, and that appropriate interventions are being implemented by the City of Johannesburg Metropolitan Municipality.

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 R713,0 million (2015: R582,3 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 as amended. 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. DIRECTORS' INTEREST IN CONTRACTS

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

5. 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

6. 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 2016, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. 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.

8. NON-CURRENT ASSETS

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

9. DISTRIBUTIONS TO SHAREHOLDER

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

10. DIRECTORS

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

Name	Nationality	Changes in appointment
KPM Simelane (Chairperson)	South African	
LT Dhlamini (Managing Director)	South African	
CB Shongwe (Financial Director)	South African	
ZD Hlatshwayo	South African	
SN Khondlo	South African	
JJH Mateya	South African	
MP Matji	South African	
K Mdutshane	South African	
G Moloi	South African	
C Motau	South African	
NJ Motlabane	South African	

11. COMPANY SECRETARY

The secretary of the company is G J Luden.

Directors' Report

12. CORPORATE GOVERNANCE

12.1 General

The board of directors are committed to business integrity, ethics, anti-corruption, 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 2009, and the Companies Act of South Africa, Act 71 of 2008. 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:

12.2 Board of directors

The board:

- retains full control over the company, its policies, strategies and plans;
- 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

12.3 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

12.4 Executive meetings

The directors have met on 11 separate occasions during the financial year. The directors are scheduled to meet at least 4 times per annum.

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

Name	Board Meetings	Audit committee meeting	Human resources and remuneration committee meeting	Service delivery and oversight procurement committee meeting	Risk and Information Technology committee meeting	Social and ethics committee	Nominations Committee	Total meetings
Total number of meetings held	11	8	7	4	6	4	4	44
KPM Simelane (Chairperson)	11	-	-	-	-	4	-	15
LT Dhlamini (Managing Director)	10	5	6	3	5	3	4	36
CB Shongwe (Financial Director)	11	7	5	3	6	4	-	36
ZD Hlatshwayo	5	-	5	-	-	4	-	14
SN Khondlo	5	-	-	4	-	-	-	9
JJH Mateya	7	-	7	-	3	-	4	21
MP Matji	5	7	-	-	-	-	-	12
K Mdutshane	11	8	-	-	6	-	-	25
G Moloi	2	-	-	3	-	-	2	7
C Motau	9	-	-	4	6	-	3	22
NJ Motlabane	11	-	7	-	-	4	-	22

12.5 Audit committee

The chairperson of the audit committee is K Mdutshane who is a non-executive director. The other member of the board, who forms part of the audit committee, is MP Matji. The committee met 8 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 committee. Notwithstanding the fact that non-executive directors appointed by the shareholder constituted the company's audit committee, National Treasury policy requires the appointment of further members to the audit committee who are not directors of the company. Three independent members were appointed to the audit committee in compliance with Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003.

The independent members of the audit committee are:

R Buys	- attended 8 meetings
V Mokwena	- attended 8 meetings
Z Samsam	- attended 7 meetings

12.6 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

13. SHAREHOLDER

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

14. SPECIAL RESOLUTIONS

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

15. BANKERS

The Standard Bank of South Africa Limited served as the company's bankers throughout the financial year.

16. AUDITORS

The Auditor-General of South Africa 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 90 of the Companies Act of South Africa, Act 71 of 2008.

Certificate by Company Secretary for the year ended 30 June 2016

In terms of section 88(2) (e) of the Companies Act 71 of 2008 and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged and/or filed, for the year ended 30 June 2016, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

G J Luden

Johannesburg Water (SOC) Limited
Company Secretary

Johannesburg
29 November 2016

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2016.

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 94(7) of the Companies Act of South Africa, Act 71 of 2008, as amended, and section 166(2) of the Municipal Finance Management Act, No 56 of 2003. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

Assessment of the finance function

The Audit Committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The committee considered the expertise, resources and experience of the finance function and concluded that these were appropriate.

The effectiveness of internal controls

The Committee evaluated the internal control environment, and based on the information, reports and explanations provided by management, internal audit department and the Auditor-General South Africa, assessed the internal controls as adequate and partially effective to mitigate the related risks to an acceptable level.

Nothing significant has come to the attention of the committee to indicate that any material breakdown in the functioning of the controls, procedures and systems during the year under review.

In respect of action plans to address internal control deficiencies, the implementation of the plans relating to revenue and receivables had limited impact on the audit outcomes. The committee commits to holding the accounting officer and senior management accountable to ensure that the internal control deficiencies are addressed.

The effectiveness of the internal audit department

The Internal Audit department executed and completed 80% (20 out of 25 projects) of all projects included in the 2015/2016 internal audit plan. The plan was properly aligned to the risk register. The Committee is satisfied with the effectiveness of the internal audit function during the year and accepts that the internal audit activity has to a large extent addressed the risks pertinent to Johannesburg Water.

The internal audit function was subjected to an independent quality assurance review in the 2014/2015 financial year and was found to be partially compliant. The committee is monitoring progress on the gaps identified on a quarterly basis through the quality assurance and improvement plan.

Performance reporting

The implementation of proper record keeping to ensure complete and accurate information to support performance information needs to be enhanced.

Governance

Risk management

Johannesburg Water has a Risk Management Division which focuses on the identification, assessment, management and monitoring of risk. Based on the information provided, the Committee is not satisfied that the financial residual risks were reduced to an acceptable level.

Legal compliance

Although there are processes in place to monitor the level of compliance to laws and regulations within the organisation, the audit outcomes indicate that the processes need to be enhanced, as can be evidenced by the irregular expenditure incurred.

Submission of quarterly reports in terms of the Municipal Finance Management Act

Quarterly reports have been submitted and reviewed by the committee in terms of the Municipal Finance Management Act.

Report of the Audit Committee

External Auditors

Having considered the matters set out in section 94(8) of the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors.

Matters raised by the Auditor-General in the previous year

The three financial years (2013 – 2015) had 69 findings in total, as at 2015/2016 there were 31 findings outstanding.

Of the 31 outstanding 23 (74%) were resolved, 6 (19%) were in progress of being resolved and 2 (7%) were not resolved.

There are 8 (26%) control deficiencies raised by the Auditor-General South Africa which remains unresolved.

The Audit Committee continues to monitor progress on the implementation of action plans to resolve the Auditor-General South Africa's findings.

Financial Statements

The Audit Committee has reviewed the annual financial statements for the year ended 30 June 2016, and concurs with and accepts the Auditor-General South Africa's conclusion on the financial statements and is of the opinion that the audited financial statements should be accepted and read together with the Auditor-General South Africa's report.

The committee commits to review the plans relating to revenue and receivables in order to improve the audit outcomes.

Appreciation

The Audit Committee expresses its appreciation to the Board, Accounting Officer, Senior Management and the Auditor-General South Africa for their contributions during the year under review.

K Mdutshane

Johannesburg Water (SOC) Limited
Chairperson of the Audit Committee

Johannesburg
29 November 2016

Report of the auditor-general to the Gauteng Provincial Legislature and the council of the City of Johannesburg Metropolitan Municipality on Johannesburg Water SOC Limited

Report on the financial statements

Introduction

1. I have audited the financial statements of the Johannesburg Water SOC Limited set out on pages … to …, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the department's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Water SOC Limited as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for June 2015 have been restated as a result of errors discovered in the financial statements of Johannesburg Water during the year ended June 2016.

Material impairments

9. As disclosed in note 11 to the financial statements, material impairments to the amount of R4 049 533 000 (2015: R3 994 818 000) representing 68% (2015: 69%) of consumer debtors were incurred, as the recoverability of these amounts is doubtful.

Additional matters

10. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Other reports required by the Companies Act

12. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the Director's Report, the Audit Committee's Report and the Company Secretary's

Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the municipal entity for the year ended 30 June 2016:

- Objective 1: Increase Customer Services, on pages x to x
- Objective 2: Reduce service interruptions & ensure reliable services, on pages x to x
- Objective 3: Increase access to basic services, on pages x to x
- Objective 4: Contribute towards National Development Goals, on pages x to x
- Objective 5: Protect the Environment, on pages x to x
- Objective 6: Improve infrastructure condition, on pages x to x

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. I did not raise any material findings on the usefulness and reliability of the reported performance information on the selected programmes.

Additional matters

18. I draw attention to the following matters:

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were identified on the reported performance information for Contribution towards National Development Goals. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Achievement of planned targets

20. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

Compliance with legislation

21. I performed procedures to obtain evidence that the department had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

22. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.

Revenue management

23. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 97(1) (h) of the MFMA.

Internal control

24. I considered internal controls relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

25. Leadership did not adequately exercise oversight responsibility over financial reporting and compliance resulting in material non-compliance with the MFMA and SCM legislation.

Financial and performance management

26. Management did not implement sufficient monitoring controls over compliance with legislation to ensure that effective revenue management controls and processes were in place throughout the year that recognised revenue when it was earned.

Other reports

27. I draw attention to the following engagements that could potentially impact on the entity's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

28. As at year end, the municipal entity had a total of 31 (number) ongoing investigations on allegations relating to financial misconduct, fraud or improper conduct in SCM. Some of these investigations have been ongoing for a long time.

Johannesburg

30 November 2016

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

Statement of Financial Position as at 30 June 2016

Figures in Rand thousand	Note(s)	2016	2015 restated
ASSETS			
Current Assets			
Inventories	5	67,159	64,938
Loans to shareholder	7	402,029	454,095
Other receivables	10	14,912	13,656
Consumer debtors: Exchange transactions	11	1,899,487	1,770,737
Cash and cash equivalents	13	29	30
Total Current Assets		**2,383,616**	**2,303,456**
Non-Current Assets			
Property, plant and equipment	3	9,512,840	8,772,591
Intangible assets	4	55,733	44,619
Total Non-Current Assets		**9,568,573**	**8,817,210**
Total Assets		**11,952,189**	**11,120,666**
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	9,872	3,635
Loans from shareholder	7	1,577,678	1,240,911
Finance lease obligation: Shareholder	8	4,531	2,359
Finance lease obligation: Other	9	1,546	1,290
Trade and other payables from exchange transactions	17	1,696,415	1,841,630
Provisions	18	15,727	21,493
Total Current Liabilities		**3,305,769**	**3,111,318**
Non-Current Liabilities			
Loans from shareholder	7	2,841,662	2,926,633
Finance lease obligation: Shareholder	8	16,780	7,441
Finance lease obligation: Other	9	960	1,505
Retirement benefit obligation	15	89,437	86,989
Deferred income	16	-	2,260
Total Non-Current Liabilities		**2,948,839**	**3,024,828**
Total Liabilities		**6,254,608**	**6,136,146**
Net Assets		**5,697,581**	**4,984,520**
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		5,697,580	4,984,519
Total Net Assets		**5,697,581**	**4,984,520**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2016	2015 restated
Revenue from exchange transactions	20	7,903,809	7,197,169
Cost of sales		(3,962,690)	(3,496,500)
Gross surplus		**3,941,119**	**3,700,669**
Other income	21	404,437	241,485
Revenue from non-exchange transactions	22	249,897	223,917
Operating expenses	24	(3,642,711)	(3,358,393)
Operating surplus		**952,742**	**807,678**
Interest revenue	29	106,231	83,819
Finance costs	30	(345,912)	(309,123)
Surplus for the year		**713,061**	**582,374**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2014 as previously reported		1	4,507,275	4,507,276
Restatement	37		(105,130)	(105,130)
Balance at 01 July 2014 restated		**1**	**4,402,145**	**4,402,146**
Surplus for the year restated			582,374	582,374
Balance at 01 July 2015 restated		**1**	**4,984,519**	**4,984,520**
Surplus for the year			713,061	713,061
Balance at 30 June 2016		**1**	**5,697,580**	**5,697,581**
Note		14		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2016	2015 restated
Cash flows from operating activities			
Receipts			
Cash receipts from customers		7,519,856	7,004,189
Interest revenue	29	106,231	83,819
		7,626,087	7,088,008
Payments			
Cash paid to suppliers and employees		(6,769,684)	(6,149,027)
Finance costs	30	(345,912)	(309,123)
		(7,115,596)	(6,458,150)
Net cash flows from operating activities	32	**510,491**	**629,858**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(815,441)	(1,115,119)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4	1	522
Purchase of intangible assets	4	(10,136)	(6,537)
Net cash flows from investing activities		**(825,576)**	**(1,121,134)**
Cash flows from financing activities			
Cash movement in loans with shareholder		303,862	491,656
Cash movement in Finance lease obligation: shareholder		11,511	(1,393)
Cash movement in Finance lease obligation: other		(289)	1,012
Net cash flows from financing activities		**315,084**	**491,275**
Net (decrease)/increase in cash and cash equivalents		**(1)**	**(1)**
Cash and cash equivalents at the beginning of the year		30	31
Cash and cash equivalents at the end of the year	13	**29**	**30**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Statement of Financial Performance

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Revenue						
Service charges	8,361,144	(39,421)	**8,321,723**	7,903,809	**(417,914)**	1
Other income	306,060	-	**306,060**	654,334	**348,274**	2
Total revenue	**8,667,204**	**(39,421)**	**8,627,783**	**8,558,143**	**(69,640)**	
Cost of sales						
Bulk Purchases - Water	(3,880,177)	(112,565)	**(3,992,742)**	(3,962,690)	**30,052**	3
Gross margin	**4,787,027**	**(151,986)**	**4,635,041**	**4,595,453**	**(39,588)**	
Expenditure						
Employee related costs	(829,103)	(42,707)	**(871,810)**	(842,162)	**29,648**	4
Contracted services	(731,672)	81,700	**(649,972)**	(652,572)	**(2,600)**	5
Consultants fees	(20,021)	5,000	**(15,021)**	(18,788)	**(3,767)**	6
General expenditure - other	(656,731)	193,808	**(462,923)**	(458,294)	**4,629**	7
Repairs and maintenance	(20,469)	1,200	**(19,269)**	(11,854)	**7,415**	8
Provision for bad debts	(507,721)	(906,972)	**(1,414,693)**	(1,418,342)	**(3,649)**	9
Depreciation	(233,746)	11,000	**(222,746)**	(240,699)	**(17,953)**	10
Total expenditure	**(2,999,463)**	**(656,971)**	**(3,656,434)**	**(3,642,711)**	**13,723**	
Surplus before interest	**1,787,564**	**(808,957)**	**978,607**	**952,742**	**(25,865)**	
Interest income	88,099	8,388	**96,487**	106,231	**9,744**	11
Interest expense	(355,580)	-	**(355,580)**	(345,912)	**9,668**	12
	(267,481)	**8,388**	**(259,093)**	**(239,681)**	**19,412**	
Surplus for the year	**1,520,083**	**(800,570)**	**719,513**	**713,061**	**(6,452)**	

Notes to the Financial Statements

Figures in Rand thousand

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

1. The adverse variance in service charges of 5.02% is as a result of less water being sold, due to the fact that JW declared a level 2 water restrictions requesting residents to save water.

2. The over-recovery of 113.79% on other income is attributable to the disparity of the pattern at which the resources are employed on capital projects, e.g recognition of developers funded assets as well as bad debts recovered during the year.

3. The saving of 0.75% on cost of sales is as a result of water demand initiatives implemented by the operations department as well as level 2 water restriction declared by the company.

4. The savings of 3.40% on employee related cost is as a result of control measures implemented on overtime as well as posts that are yet to be filled.

5. The over expenditure of 0.40% on contracted services relates to the cross-boundary charges for the treatment of sewer by the Emfuleni municipality who increased their tariffs significantly.

6. The services of consultants are overspent by 25.09% due to certain consulting costs which were incurred on capital projects which did not materialise and were subsequently classified as operational costs.

7. All efforts have been made to reduce unnecessary expenditure on general expenses in an attempt to reduce cost and to fund excess expenditure in other categories.

8. Repairs and maintenance is underspent by 38.47% due to under spending on maintenance to buildings, grounds and gardens. Expenditure only occurs as and when required.

9. The contribution towards the bad debt is under budget by 0.26% for the year. The contribution to actual provision is calculated on a collection rate of 84.2% as at the end of June 2016, and the adjusted collection rate is 83.2%. The revenue was R418 million below the budget which resulted to a reduced contribution towards the bad debt.

10. Depreciation exceeds budget by 8.06% as a result of the completion of large number of assets which were commissioned during the year.

11. The variance of 10.10% on interest charges on outstanding debtors is attributable to the payment patterns of debtors and interest received on the bank sweeping account.

12. Capex drawdowns were slightly less than expected during the financial year due to earlier execution of capital projects, hence the under-expenditure of 2.72% in interest charges.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Statement of Financial Position as at 30 June 2016

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Assets						
Current Assets						
Inventories	52,930	14,738	**67,668**	67,159	**(509)**	
Loans to shareholder	1,844,749	(1,042,297)	**802,452**	402,029	**(400,423)**	1
Trade receivables with group companies	4	-	**4**	-	**(4)**	
Other receivables	12,966	1,068	**14,034**	14,912	**878**	2
Consumer debtors	1,683,353	(739,522)	**943,831**	1,899,487	**955,656**	3
Cash and cash equivalents	26	-	**26**	29	**3**	
	3,594,028	**(1,766,013)**	**1,828,015**	**2,383,616**	**555,601**	
Non-Current Assets						
Property, plant and equipment	8,448,041	711,578	**9,159,619**	9,568,573	**408,954**	4
Total Assets	**12,042,069**	**(1,054,435)**	**10,987,634**	**11,952,189**	**964,555**	
Liabilities						
Current Liabilities						
Trade payables with group companies	12,628	192,071	**204,699**	9,872	**(194,827)**	5
Loans from shareholder	679,182	320,500	**999,682**	1,577,678	**577,996**	6
Finance lease obligation: Shareholder	3,562	462	**4,024**	4,531	**507**	7
Finance lease obligation: Other	-	-	**-**	1,546	**1,546**	
Trade and other payables from exchange transactions	1,709,273	(1,023,938)	**685,335**	1,696,415	**1,011,080**	8
Provisions	76,097	7,140	**83,237**	15,727	**(67,510)**	9
	2,480,742	**(503,765)**	**1,976,977**	**3,305,769**	**1,328,792**	
Non-Current Liabilities						
Loans from shareholder	3,174,015	(307,286)	**2,866,729**	2,841,662	**(25,067)**	
Finance lease obligation: Shareholder	7,330	2,146	**9,476**	16,780	**7,304**	7
Finance lease obligation:Other	-	-	**-**	960	**960**	
Deferred income	499	(499)	**-**	-	**-**	
Retirement benefit obligation	96,236	(4,249)	**91,987**	89,437	**(2,550)**	
	3,278,080	**(309,888)**	**2,968,192**	**2,948,839**	**(19,353)**	
Total Liabilities	**5,758,822**	**(813,653)**	**4,945,169**	**6,254,608**	**1,309,439**	
Net Assets	**6,283,247**	**(240,782)**	**6,042,465**	**5,697,581**	**(344,884)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Equity and Liabilities						
Contribution from shareholder	1	-	**1**	1	**-**	
Reserves						
Accumulated surplus	6,283,246	(240,782)	**6,042,464**	5,697,580	**(344,884)**	10
Total Net Assets	**6,283,247**	**(240,782)**	**6,042,465**	**5,697,581**	**(344,884)**	

1. Loans to Shareholder is 49.9% below budget due to the capex drawdown for loan funding and the grant funding being less than anticipated at the end of the period.

2. Debt from other sundry debtors was more than anticipated by 6.3% at the end of June 2016.

3. The variance of 101.3% for consumer debtors: exchange transactions is a result of write offs of R1.5 billion which occurred at year end and was not budgeted for.

4. The value of the PPE at 30 June 2016 is above budget by R409 million (4.5%) mainly due to accelarated capitalisation of assets, developer funded assets, and recognition of capital spares.

5. Payments for work done by group companies have been made through-out the year hence the amount owed at year-end is 95.2% below the budgeted amount.

6. The adverse variance of 57.8% for loans from shareholder is attributable to the increased value of the City of Johannesburg creditors outstanding at the end of the period. Payments to the City of Johannesburg for the revenue management fee and rates and services are withheld until such time that there is an improvement in the payment level.

7. Finance lease liability is over the budget by 89.1% as a result of newly established contracts for fleet vehicle and for office photocopy machines.

8. The original approved payment level was 93.9 which allowed payments of short term debts, however the adjusted payment level was 83.2 hence the reduction of creditors from the original budget.

9. The adverse variance for provisions of 81.1% is attributable to the performance bonus and service bonus provision accounts being adjusted to reflect actual requirements.

10. The unfavorable variance of 5.7% on the accumulated surplus is attributable to the net profit which is R6 million below the adjusted budget net profit.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	7,800,322	(8,476)	**7,791,846**	7,519,856	**(271,990)**	1
Interest revenue	77,280	10,819	**88,099**	106,231	**18,132**	
	7,877,602	**2,343**	**7,879,945**	**7,626,087**	**(253,858)**	
Payments						
Cash paid to suppliers and employees	(5,865,008)	(866,317)	**(6,731,325)**	(6,769,684)	**(38,359)**	2
Finance costs	(355,596)	16	**(355,580)**	(345,912)	**9,668**	3
	(6,220,604)	**(866,301)**	**(7,086,905)**	**(7,115,596)**	**(28,691)**	
Net cash flows from operating activities	**1,656,998**	**(863,958)**	**793,040**	**510,491**	**(282,549)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(1,228,150)	256,909	**(971,241)**	(815,441)	**155,800**	4
Proceeds from disposal of plant and equipment	-	-	**-**	1	**1**	
Purchase of intangible assets	-	-	**-**	(10,136)	**(10,136)**	
Net cash flows from investing activities	**(1,228,150)**	**256,909**	**(971,241)**	**(825,576)**	**145,665**	
Cash flows from financing activities						
Cash movement in loans from shareholder	(428,848)	606,784	**177,936**	303,862	**125,926**	
Cash movement in finance lease obligation: Shareholder	-	265	**265**	11,511	**11,246**	
Cash movement in finance lease obligation: Other	-	-	**-**	(289)	**(289)**	
Net cash flows from financing activities	**(428,848)**	**607,049**	**178,201**	**315,084**	**136,883**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net (decrease) in cash and cash equivalents	-	-	**-**	(1)	**(1)**	
Cash and cash equivalents at the beginning of the year	26	-	**26**	30	**4**	
Cash and cash equivalents at the end of the year	**26**	**-**	**26**	**29**	**3**	

1. The actual cash receipts from customers are below original budget by 3.5% due to customers defaulting on their accounts. The average payment level for 2015/16 has improved to 84.2% against a revised budget of 83.2%.

2. The variance of 0.6% is due to payments to creditors being slightly more than budgeted. This is mainly contributed by Emfuleni Sewer Charges which had to be paid after a substantial increase in their tarriff.

3. The under-expenditure on finance cost is 2.7% is due to timing difference of the capex drawdowns during the financial year and the execution of capital projects.

4. The actual amount spent on property plant and equipment is 16% less than budgeted due to delays on execution of capital projects.

The approved adjusted budget 2015/2016, as approved by council, is available for inspection at the registered office of the City of Johannesburg Metropolitan Municipality, Metropolitan Centre, 23 Loveday Street, Braamfontein, 2001.

Although the Annual Financial Statements and the Budget are both prepared on the same basis, the presentation of the two reports differ. The overall financial impact of the different methods of presentation when comparing the two reports is nil.

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 Practice (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 71 of 2008.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. Accounting policies for material transactions, events of conditions not recovered by the GRAP reporting framework, have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, 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. The basis presumes that funds will be available to future operations and that the realisation of assets and settlement of liabilities, contingent liabilities and commitments will occur in the ordinary course of business. These accounting policies are consistent with the previous accounting period.

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 are 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 industry norms. Management will adjust the depreciation charge where the useful lives of these assets have changed from previous estimates.

Impairment of property, plant and equipment and other non-current and intangible assets

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 depends 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 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.

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

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.

Valuation of water stock

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

1.2 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 or service potential 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, or replace part of such assets. 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.

Property, plant and equipment transferred to the company by developers at no cost to the company are 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 accumulated 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 costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits or service potential will flow to the company and the cost of the items can be measured reliably.

Land is regarded as having an indefinite useful life and is not depreciated. Depreciation is provided on all property, plant and equipment other than land and capital work-in-progress, to write down the costs, less estimated residual value, on a straight line basis over their estimated useful lives as follows:

Summary of Accounting Policies

1.2 Property, plant and equipment (continued)

Item	Useful life
Buildings	5 - 30 years
Communication equipment	2 - 9 years
Furniture and Fixtures	5 - 12 years
Computer equipment	4 - 15 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 10 years
Minor plant	5 - 13 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 - 16 years
• Water meters	4 - 13 years
• Pipelines and other	60 - 100 years

The residual values, depreciation methods and the useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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 or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from 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.

1.3 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 or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost and comprise of computer software and servitudes. Cost includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and the costs can be measured reliably. All other expenditure is expensed as incurred.

Summary of Accounting Policies

1.3 Intangible assets (continued)

Cost model

Intangible assets are carried at cost less any accumulated amortisation and any accumulated 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 and adjusted if necessary.

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.

An item of intangible asset is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The surplus or deficit arising from derecognition of an item or intangible asset is included in the surplus of deficit when the item is derecognised. The surplus or deficit arising from 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

1.4 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.

In the case of financial instruments not at fair value, they are recognised through profit or loss, including any 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.

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.

Payables from exchange transactions

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.

Summary of Accounting Policies

1.4 Financial instruments (continued)

Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand and are subsequently measured at amortised cost.

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 as well as observable payment levels for overdue through to 89 days), 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 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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  (a) the company has transferred substantially all the risks and rewards of the asset, or
  (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Summary of Accounting Policies

1.4 Financial instruments (continued)

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.

1.5 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.

1.6 Leases

Finance leases

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

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.

The lease for motor vehicles is classified as an operating lease at inception. It is not straight-lined due to the lease contract containing multiple parameters such as escalations linked to various market indices, which is variable depending on the prevailing market indicators. This renders the escalation clause to be uncertain and it is therefore impractical to calculate the straight lining of this lease in accordance with GRAP 13.

1.7 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.

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

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.

Summary of Accounting Policies

1.7 Inventories (continued)

When inventories are utilised or consumed, the carrying amounts 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.

1.8 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 cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately indentifiable cash flows.

In assessing the 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. Impairment losses are recognised in surplus or deficit in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may be 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, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus/ (deficit).

1.9 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.

Other post retirement obligations

The company provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. This obligation is not funded by any underpinned assets.

Summary of Accounting Policies

1.9 Employee benefits (continued)

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. The obligation is measured at the present value of the estimated future cash flows using interest rates of government 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.

1.10 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 or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

Contingent assets and contingent liabilities are not recognised.

1.11 Bulk 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 credited to the Statement of Financial Performance.

1.12 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.

1.13 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 is recognised when consumed 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.

1.14 Interest Revenue

Interest revenue is recognised on a time-proportion basis using the effective interest method.

1.15 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.

Summary of Accounting Policies

1.16 Presentation currency and rounding

The annual financial statements are presented in South African Rand rounded to the nearest thousand.

1.17 Budget information

The company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements. The budget is prepared for the period from July 2015 to June 2016 which is in alignment to the presentation of the financial statements reporting period.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

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 20 - Related Party Disclosure
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents

The above standards are similar to existing standards applied by the company and are unlikely to impact the financial position or performance of the entity, but may impact the extent of disclosures provided.

3. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12,208	-	12,208	10,367	-	10,367
Buildings	333,066	(241,064)	92,002	316,599	(233,017)	83,582
Plant and machinery	2,303,962	(588,326)	1,715,636	1,519,012	(522,248)	996,764
Furniture and fixtures	20,226	(11,795)	8,431	19,694	(10,413)	9,281
Motor vehicles	27,813	(7,317)	20,496	14,176	(5,029)	9,147
Office equipment	16,949	(10,053)	6,896	18,402	(10,724)	7,678
Computer equipment	93,180	(54,916)	38,264	80,081	(47,110)	32,971
Capital work in progress	1,062,769	-	1,062,769	2,203,300	-	2,203,300
Communication equipment	26,182	(11,813)	14,369	21,820	(10,974)	10,846
Laboratory equipment	42,914	(26,986)	15,928	40,884	(23,865)	17,019
Minor plant	168,428	(56,060)	112,368	86,348	(50,072)	36,276
Inventory - Capital	72,379	-	72,379	64,469	-	64,469
Wastewater network	2,386,791	(210,915)	2,175,876	2,166,527	(187,113)	1,979,414
Water network	4,721,456	(556,238)	4,165,218	3,799,743	(488,266)	3,311,477
Total	**11,288,323**	**(1,775,483)**	**9,512,840**	**10,361,422**	**(1,588,831)**	**8,772,591**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10,367	-	-	1,841	-	-	12,208
Buildings	83,582	5,965	-	10,523	-	(8,068)	92,002
Plant and machinery	996,764	1,623	-	784,488	-	(67,239)	1,715,636
Furniture and fixtures	9,281	533	(1)	32	-	(1,414)	8,431
Motor vehicles	9,147	13,887	(20)	(52)	-	(2,466)	20,496
Office equipment	7,678	1,903	(4)	130	-	(2,811)	6,896
Computer equipment	32,971	13,929	(51)	23	-	(8,608)	38,264
Capital work in progress	2,203,300	488,895	-	(1,629,426)	-	-	1,062,769
Communication equipment	10,846	5,720	(1)	172	-	(2,368)	14,369
Laboratory Equipment	17,019	3,077	(6)	-	-	(4,162)	15,928
Minor plant	36,276	12,080	(2)	71,272	-	(7,258)	112,368
Inventory - capital	64,469	7,910	-	-	-	-	72,379
Wastewater network	1,979,414	6,866	-	116,892	96,506	(23,802)	2,175,876
Water network	3,311,477	253,053	-	628,873	70,065	(98,250)	4,165,218
	8,772,591	**815,441**	**(85)**	**(15,232)**	**166,571**	**(226,446)**	**9,512,840**

Notes to the Financial Statements

3. Property, plant and equipment (continued)

Land and buildings

Land and buildings to the value of R 104,210 (2015: R 93,949) 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 SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Water network	R	565 376
Plant and Machinery	R	225 999
Other	R	140 709
Wastewater network	R	130 685

Fully depreciated assets held at R1 (not in Rand thousand)

Included in PPE are assets which currently have a book value of R1 (one Rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Impairment loss	Total
Land	10,367	-	-	-	-	-	-	10,367
Buildings	127,363	1,765	-	(36,767)	-	(8,779)	-	83,582
Plant and machinery	1,036,757	667	-	-	-	(40,311)	(349)	996,764
Furniture and fixtures	6,803	890	(7)	3,186	-	(1,591)	-	9,281
Motor vehicles	10,751	1,198	(411)	-	-	(2,391)	-	9,147
Office equipment	8,416	4,623	(1,809)	6	-	(3,558)	-	7,678
Computer equipment	20,867	5,778	(50)	17,498	-	(11,122)	-	32,971
Capital work in progress	1,862,071	726,415	-	(385,186)	-	-	-	2,203,300
Communication equipment	3,693	8,877	(26)	13	-	(1,711)	-	10,846
Laboratory Equipment	15,586	4,811	-	-	-	(3,378)	-	17,019
Minor plant	14,300	18,978	-	8,032	-	(5,034)	-	36,276
Inventory - capital	-	64,469	-	-	-	-	-	64,469
Wastewater network	1,606,846	20,423	-	282,876	90,079	(20,810)	-	1,979,414
Water network	2,961,799	256,225	-	108,626	57,377	(72,550)	-	3,311,477
	7,685,619	**1,115,119**	**(2,303)**	**(1,716)**	**147,456**	**(171,235)**	**(349)**	**8,772,591**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Plant and Machinery	R 1 017 632
Water network	R 992 179
Wastewater network	R 158 926
Other	R 34 563

Fully depreciated assets held at R1 (not in Rand thousand)

Included in PPE are assets which currently have a book value of R1 (one Rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Figures in Rand thousand | 2016 | 2015

Notes to the Financial Statements

3. Property, plant and equipment (continued)

The following leased assets are included in Property, plant and equipment listed above.

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4,507	(2,114)	2,393	4,648	(1,931)	2,717
Motor vehicles	27,813	(7,298)	20,515	13,926	(4,818)	9,108
Total	**32,320**	**(9,412)**	**22,908**	**18,574**	**(6,749)**	**11,825**

4. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1,727	-	1,727	1,727	-	1,727
Computer software	108,928	(54,922)	54,006	97,076	(54,184)	42,892
Total	**110,655**	**(54,922)**	**55,733**	**98,803**	**(54,184)**	**44,619**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1,727	-	-	-	1,727
Computer software	42,892	10,136	15,232	(14,254)	54,006
	44,619	**10,136**	**15,232**	**(14,254)**	**55,733**

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1,727	-	-	-	1,727
Computer software	48,682	6,537	1,716	(14,043)	42,892
	50,409	**6,537**	**1,716**	**(14,043)**	**44,619**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

5. Inventories

Raw materials, components	55,811	54,896
Water	13,189	11,682
Subtotal	69,000	66,578
Provision for inventory write downs	(1,841)	(1,640)
	67,159	**64,938**

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. Water stock expensed is included as part of cost of sales.

6. Trade receivables and (payables) with group companies

Fellow subsidiaries

Johannesburg Roads Agency SOC Ltd	(9,517)	(3,148)
Johannesburg City Parks NPC	(313)	(458)
City Power SOC Ltd	(36)	-
Johannesburg Metropolitan Bus Services SOC Ltd t/a Metrobus	-	(3)
City of Johannesburg Property Company SOC Ltd	(6)	(26)
	(9,872)	**(3,635)**

Terms and Conditions

The above loans are short term (30 - 60 days) , unsecured and interest free.

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.

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. The carrying value of trade receivables and payables with group companies approximates fair value.

Trade receivables with group companies past due but not impaired

There are trade receivables with group companies which are past due and not impaired.

30 days past due	-	2

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

7. Loans to/(from) shareholder

City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(3,249,427)	(3,244,231)
City of Johannesburg Metropolitan Municipality - Other loans	(1,039,946)	(728,352)
City of Johannesburg Metropolitan Municipality - Shareholder loans	(129,967)	(194,961)
City of Johannesburg Metropolitan Municipality - Sweeping account	330,559	330,301
City of Johannesburg Metropolitan Municipality - Post retirement benefit	66,282	69,835
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	5,188	52,428
City of Johannesburg Metropolitan Municipality - Capex drawdown	-	1,531
	(4,017,311)	**(3,713,449)**

Other loans and the capex drawdown are short term (30 - 60 days), unsecured and interest free.

Current assets	402,029	454,095
Non-current liabilities	(2,841,662)	(2,926,633)
Current liabilities (including short term portion of long term loans)	(1,577,678)	(1,240,911)
	(4,017,311)	**(3,713,449)**

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

The loans to/(from) shareholder are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of loans to/(from) shareholder approximates fair value.

Loans to shareholder past due but not impaired

At 30 June 2016, R 54 (2015: R 71) were past due but not impaired.

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

30 days past due	30	-
60 days past due	-	71
90 days past due	25	-
180 days past due	9	-

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(3,244,231)	(2,857,052)
New loans	(474,989)	(813,947)
Repayments	465,995	426,384
Interest accrued	3,834	384
Balance at end of year	**(3,249,391)**	**(3,244,231)**

Conduit loans are repayable in equal quarterly instalments over a period of 10 years from loan acquisition. These unsecured loans bear interest at a fixed rate of 9.31% to 10.9% (2015: 9.31% to 10.9%) .

FDA 1 (Caylon) is repayable in equal quarterly instalments over a period of 10 years, commencing 30 September 2008. These unsecured loans bear interest at a variable rate linked to Jibar less 35 basis points resulting in a rate of 6.88% for the current financial year (2015: 5.76%)

FDA 2 is repayable in equal half yearly instalments over a period of 12 years, commencing 15 November 2014. These unsecured loans bear interest at a variable rate linked to Jibar plus 70 basis points resulting in a rate of 7.4% and 7.47% for the current financial year (2015: 7.4% and 7.47%)

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

7. Loans to/(from) shareholder (continued)

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(194,961)	(259,956)
Repayments	64,995	64,995
Balance at the end of the year	**(129,966)**	**(194,961)**

The unsecured loans bear interest at a nominal annual rate of 14.5% to 15% (2015: 14.5% to 15%) compounded monthly and are repayable in equal quarterly instalments over a period of 10 years. The quarterly capital repayments commenced in 2009.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	330,559	330,301

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 7.12% (2015: 6.21%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due		
- within one year	6,450	3,231
- in second to fifth year	20,048	8,824
	26,498	12,055
less: Future finance charges	(5,187)	(2,255)
Present value of minimum lease payments	**21,311**	**9,800**

Present value of minimum lease payments due		
- within one year (Current liabilities)	4,531	2,359
- in second to fifth year (Non-current liabilities)	16,780	7,441
	21,311	**9,800**

Interest on finance leases are calculated at 10% per annum, and repayments on the lease arrangements are made monthly. The lease terms range from 3 years to 7 years. The carrying value of the finance leased assets is included in property, plant and equipment, under motor vehicles. Refer note 3 for further information.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

9. Finance lease obligation: Other

	2016	2015
Minimum lease payments due		
- within one year	1,688	1,455
- in second to fifth year	1,001	1,598
	2,689	3,053
less: Future finance charges	(183)	(258)
Present value of minimum lease payments	**2,506**	**2,795**
Present value of minimum lease payments due		
- within one year (Current liabilities)	1,546	1,290
- in second to fifth year (Non-current liabilities)	960	1,505
	2,506	**2,795**

Interest on finance leases are calculated at variable rates of interest, ranging between 7.35% and 8.5% per annum, and repayments on the lease arrangements are made quarterly. The lease terms are over a period of 3 years. The carrying value of the finance leased assets is included in property, plant and equipment, under office equipment. Refer note 3 for further information.

10. Other receivables

	2016	2015
Sundry Debtor	17,834	16,499
Allowance for impairment	(2,922)	(2,843)
Total other receivables	**14,912**	**13,656**

Other receivables consist predominantly of the billing and recovery of sundry services which include laboratory fees and prepaid expenditure.

Credit quality of other receivables

Other receivables comprise of the recovery of sundry services. Management evaluates credit risk relating to these customers on an on-going 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

At 30 June 2016 R203 (2015: R4) was past due but not impaired.

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

	2016	2015
30 days past due	102	2
60 days past due	39	2
90 days past due	62	-
120 days past due	-	-

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

10. Other receivables (continued)

Other receivables impaired

As of 30 June 2016, other receivables of R 17,834 (2015: R 16,499) were considered for impairment testing. The allowance for impairment losses for the period was R2,922 (2015: R2,843).

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

Current	14,726	13,653
1 - 30 days	102	2
31 - 60 days	39	2
61 - 90 days	62	-
91 - 120 days	-	9
121 - 365 days	-	14
> 365 days	2,905	2,819
Total other receivables	**17,834**	**16,499**

Reconciliation of allowance for impairment of other receivables

Opening balance	(2,843)	(2,956)
Allowance for impairment losses	(110)	(42)
Reversed during the year	31	45
Write off	-	110
	(2,922)	**(2,843)**

The creation and release of the allowance for impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (note 26). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

11. Consumer debtors: Exchange transactions

	2016	2015
Trade receivables	5,949,020	5,765,555
Allowance for impairment	(4,049,533)	(3,994,818)
	1,899,487	**1,770,737**

An 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 trade and other receivables have not been renegotiated during the current or prior period.

Extensive investigative work performed prior to 2004 in order to inform the direction of the company turnaround strategy identified that the deemed consumption areas were largely responsible not only for the high outstanding debtors, but also the higher than benchmark unaccounted for water level. The level of water losses for the year under review is 22.6% (2015: 22.2%). The metered areas are considered to be within accepted norms, whilst the problem area has been identified as being the deemed consumption environment.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis and characteristics like collection levels are considered during evaluation for impairment. 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	2016	2015
Current	479,233	107,007
30 days	251,235	502,897
31 - 60 days	186,856	181,155
61 - 90 days	150,245	146,492
91 - 120 days	98,939	143,943
121 - 365 days	573,000	1,162,677
> 365 days	1,459,295	795,653
	3,198,803	3,039,824
Less: Allowance for impairment	(2,224,191)	(2,210,526)
	974,612	**829,298**

Domestic consumers - Past due and impaired	2016	2015
30 days	(39,695)	(45,114)
31 - 60 days	(29,523)	(34,912)
61 - 90 days	(23,739)	(28,227)
91 - 120 days	(98,939)	(143,943)
121 - 365 days	(573,000)	(1,162,677)
> 365 days	(1,459,295)	(795,653)
	(2,224,191)	**(2,210,526)**

Domestic consumers - Current, past due and not impaired	2016	2015
Current	479,233	107,007
30 days	211,540	457,783
31 - 60 days	157,333	146,243
61 - 90 days	126,506	118,265
	974,612	**829,298**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

11. Consumer debtors: Exchange transactions (continued)

Commercial consumers		
Current	416,629	195,125
30 days	174,883	420,395
31 - 60 days	88,661	92,417
61 - 90 days	89,039	109,216
91 - 120 days	115,089	75,949
121 - 365 days	447,175	532,641
> 365 days	1,204,433	1,086,036
	2,535,909	2,511,779
Less: Allowance for impairment	(1,655,956)	(1,669,617)
	879,953	**842,162**

Commercial consumers - Past due and impaired		
91 - 120 days	(94,289)	(72,764)
121 - 365 days	(357,234)	(510,817)
> 365 days	(1,204,433)	(1,086,036)
	(1,655,956)	**(1,669,617)**

Commercial consumers - Current, past due and not impaired		
Current	416,629	195,125
30 days	174,883	420,395
31 - 60 days	88,661	92,417
61 - 90 days	89,039	109,216
91 - 120 days	20,800	3,185
121-365 days	89,941	21,824
	879,953	**842,162**

National and provincial government		
Current	20,598	16,215
30 days	14,330	56,012
31 - 60 days	2,878	21,190
61 - 90 days	7,116	5,860
91 - 120 days	9,404	5,910
121 - 365 days	39,574	1,680
> 365 days	120,408	107,085
	214,308	213,952
Less: Allowance for impairment	(169,386)	(114,675)
	44,922	**99,277**

National and provincial government - Past due and impaired		
91 - 120 days	(9,404)	(5,910)
121 - 365 days	(39,574)	(1,680)
> 365 days	(120,408)	(107,085)
	(169,386)	**(114,675)**

National and provincial government - Current, past due and not impaired		
Current	20,598	16,215
30 days	14,330	56,012
31 - 60 days	2,878	21,190
61 - 90 days	7,116	5,860
	44,922	**99,277**

Figures in Rand thousand	2016	2015

11. Consumer debtors: Exchange transactions (continued)

Total consumer debtors

	2016	2015
Current	916,460	318,347
30 days	440,448	979,304
31 - 60 days	278,395	294,762
61 - 90 days	246,400	261,568
91 - 120 days	223,432	225,802
121 - 365 days	1,059,749	1,696,998
> 365 days	2,784,136	1,988,774
	5,949,020	5,765,555
Less: Allowance for impairment	(4,049,533)	(3,994,818)
	1,899,487	**1,770,737**

Total consumer debtors - Past due and impaired

	2016	2015
30 days	(39,695)	(45,114)
31- 60 days	(29,523)	(34,912)
61 - 90 days	(23,739)	(28,227)
91 - 120 days	(202,632)	(222,617)
121 - 365 days	(969,808)	(1,675,174)
> 365 days	(2,784,136)	(1,988,774)
	(4,049,533)	**(3,994,818)**

Total consumer debtors - Current, past due but not impaired

	2016	2015
Current	916,460	318,347
30 days	400,753	934,190
31 - 60 days	248,872	259,850
61 - 90 days	222,661	233,341
91 - 120 days	20,800	3,185
121 - 365 days	89,941	21,824
	1,899,487	**1,770,737**

Reconciliation of allowance for impairment

	2016	2015
Balance at beginning of the year	(3,994,818)	(5,748,754)
Contributions to allowance	(1,613,552)	(1,630,531)
Debt impairment written off against allowance	1,558,837	3,384,467
	(4,049,533)	**(3,994,818)**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

12. Financial assets by category

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

2016

	Loans and receivable	Other	Total
Consumer debtors	1,899,487	-	1,899,487
Other receivables	4,374	-	4,374
Prepayments	-	10,538	10,538
Total Other Receivables	**4,374**	**10,538**	**14,912**
Loans to shareholder	**402,029**	**-**	**402,029**
Cash	**29**	**-**	**29**
	2,305,919	**10,538**	**2,316,457**

2015

	Loans and receivable	Other	Total
Consumer debtors	1,770,737	-	1,770,737
Other receivables	3,675	-	3,675
Prepayments	-	9,981	9,981
Total Other Receivables	**3,675**	**9,981**	**13,656**
Loans to shareholder	**454,095**	**-**	**454,095**
Cash	**30**	**-**	**30**
	2,228,537	**9,981**	**2,238,518**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	29	30

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 as at 30 June 2016 is R330 million (2015: R330 million).

Bank	Account Type	Account number	2016	2015
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000196819	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			-	**-**

14. Contribution from shareholder

	2016	2015
Authorised		
1000 Ordinary shares of R1 each	1	1
Issued		
200 Ordinary shares of R1 each	1	1

Notes to the Financial Statements

Figures in Rand thousand		2016	2015

15. Retirement benefit obligations

The actuarial valuations were performed by ARCH Actuarial Consulting CC, who is independent post retirement plan administrators. It was concluded that the plan was in a sound financial position, taking into account the loan receivable (note 7) from the City of Johannesburg Metropolitan Municipality, to cover the liability.

Post-retirement liability			
Provision:Post-Retirement Medical Obligation	15.1	33,030	36,032
Provision:Post-Retirement Housing Subsidy obligation	15.2	9	61
Provision:Post-Retirement Gratuity Obligation	15.3	56,398	50,896
Balance at end of year		**89,437**	**86,989**

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 9 employees (2015: 17 employees), and 51 continuation members (2015: 43 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

Opening balance	36,032	31,020
Benefits paid	(155)	(1,459)
Current service costs	169	328
Interest costs	2,989	2,707
Actuarial gain	(6,005)	3,436
Balance at end of year	**33,030**	**36,032**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

Discount rates used	8.74 %	8.48 %
Expected increase in salaries	7.41 %	7.14 %

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.

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	36,285	33,029	30,236
Percentage change	-9.86%	0%	8.45%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	34,197	33,029
Percentage change	-3.53%	0%

Figures in Rand thousand | 2016 | 2015

15. Retirement benefit obligations (continued)

Other assumptions:

Age of Spouse	-	husbands five years older than wives
Mortality of in-service members	-	In accordance with the SA 85-90 mortality tables
Mortality of pensioners	-	In accordance with the PA(90) ultimate mortality tables.

15.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 1 employees (2015: 4 employees). and 0 continuation member (2015: 1 continuation member). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement housing subsidy plan

	2016	2015
Opening balance	61	51
Current service costs	1	1
Interest costs	5	4
Benefits Paid	-	(4)
Actuarial gain	(58)	9
Balance at end of year	**9**	**61**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

	2016	2015
Discount rates used	8.74 %	8.48 %
Expected increase in salaries	7.41 %	7.14 %

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.

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	10	9	8
Percentage change	-11.1%	0%	11.1%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	9	9
Percentage change	-0.38%	0%

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

15. Retirement benefit obligations (continued)

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 287 employees (2015: 293 employees). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

	2016	2015
Opening balance	50,896	59,103
Benefits paid	(7,982)	(6,346)
Interest Cost	4,117	5,121
Actuarial loss / (gain)	9,367	(6,982)
Balance at end of year	**56,398**	**50,896**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

	2016	2015
Discount rates used	8.74 %	8.48 %
Expected increase in salaries	7.41 %	7.14 %

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.

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	59,700	56,398	53,399
Percentage change	-5.85%	0%	5.32%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	56,398	56,398
Percentage change	0%	0%

15.4 Net expense recognised in the statement of financial performance

	2016	2015
Post retirement medical aid plan	(3,002)	(5,012)
Post retirement housing subsidy plan	(52)	(10)
Post retirement gratuity plan	5,502	8,207
Total included in employee related costs	**2,448**	**3,185**

15.5 Defined contribution plan

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

	2016	2015
The total company contribution to such schemes	81,344	72,662

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

16. Deferred income

Unspent conditional grants comprise:

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Government grants	-	2,260

Government grants movement during the year

	2016	2015
Balance at the beginning of the year	2,260	-
Received in current year	247,637	226,177
Utilised during the year	(249,897)	(223,917)
Balance at the end of the year	**-**	**2,260**

17. Trade and other payables from exchange transactions

	2016	2015
Trade payables	845,548	949,426
Payments received in advanced	394,106	410,885
Consumer deposits	323,480	291,839
VAT	42,943	100,901
Accrued leave pay	36,026	41,219
Accrued bonus (13th Cheque)	23,044	21,747
Sundry payables	17,973	8,412
Operating lease payables	13,295	17,201
	1,696,415	**1,841,630**

The above are short term (30-60 days) , unsecured and interest free.

18. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	21,493	15,727	(11,957)	(9,536)	15,727
	21,493	**15,727**	**(11,957)**	**(9,536)**	**15,727**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	18,101	21,493	(12,528)	(5,573)	21,493
	18,101	**21,493**	**(12,528)**	**(5,573)**	**21,493**

Figures in Rand thousand | 2016 | 2015

19. Financial liabilities by category

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

2016

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1,247,985	-	1,247,985
South African Revenue Services	-	53,633	53,633
Customer Prepayments	-	394,795	394,795
Trade and other payables from exchange transactions	**1,247,985**	**448,428**	**1,696,413**
Trade payables with group companies	**9,872**	**-**	**9,872**
Loans from Shareholder	**4,419,340**	**-**	**4,419,340**
Finance lease obligation: Shareholder	21,311	-	21,311
Finance lease obligation: Other	2,506	-	2,506
Provisions	**-**	**15,727**	**15,727**
	5,701,014	**464,155**	**6,165,169**

2015

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1,319,853	-	1,319,853
South African Revenue Services	-	110,685	110,685
Customer Prepayments	-	411,092	411,092
Trade and other payables from exchange transactions	**1,319,853**	**521,777**	**1,841,630**
Trade payables with group companies	**3,635**	**-**	**3,635**
Loans from Shareholder	**4,167,544**	**-**	**4,167,544**
Finance lease obligation: Shareholder	9,800	-	9,800
Finance lease obligation: Other	2,795	-	2,795
Provisions	**-**	**21,493**	**21,493**
	5,503,627	**543,270**	**6,046,897**

20. Revenue from exchange transactions

	2016	2015
Sale of water	4,973,412	4,480,291
Rendering of sanitation services	2,930,397	2,716,878
	7,903,809	**7,197,169**

21. Other income

	2016	2015
Other income	154,411	5,010
Laboratory income	1,103	852
Developer funded asset income	166,570	147,456
Bulk service contributions received	82,353	88,167
	404,437	**241,485**

22. Revenue from non-exchange transactions

	2016	2015
Government grants released	249,897	223,917

Figures in Rand thousand | 2016 | 2015

23. Water Losses: Physical and Commercial

Water losses are included in cost of sales. The level of physical and commercial losses for the year under review is 22.6% [R895,6 million], (2015: 22.0% [R776,2 million). The level of physical losses for the year under review is 16.3% [R645,9 million], (2015: 16.0% [R559,4 million]). The level of commercial losses for the year under review is 6.3% [R249,6 million], (2015: 6.2% [R216,7 million]).

It is acknowledged and accepted that a certain level of water losses cannot be avoided from a technical perspective and is considered acceptable from an economic perspective. This means the cost of interventions to reduce water losses from a technical perspective should be less than the savings to be realised. The industry norm for water losses is 18%. Taking consideration hereof would result in a reduction of the level of water losses for the year under review to 4.6% [R182,2 million], (2015: 4.2% [R146,8 million]). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

Please refer to note 11 for additional information.

24. Operating expenses

		2016	2015
Allowance for debt impairment	26	1,418,342	1,423,127
Auditors remuneration	25	4,472	4,707
Contractors billing and credit control		194,422	184,201
Contractors meter reading		14,703	14,225
Contracted services		374,406	292,476
Depreciation, amortisation and impairments	3 & 4	240,699	185,624
Electricity and chemicals	27	191,850	133,543
Employee costs	28	839,917	769,770
Lease rentals on operating lease		118,408	115,191
Legal expenses		1,368	696
Loss on sale of property, plant and equipment		84	1,781
Information technology expenses		21,830	15,928
Insurance		6,503	10,443
Marketing and communication expenses		13,325	8,445
Motor vehicle expenses		2,238	3,328
Other operating expenses		14,535	17,002
Printing and stationery		3,036	2,308
Repairs and maintenance		11,855	12,640
Security		36,225	27,476
Store issues and direct material purchases		117,445	121,130
Telephone and fax		17,048	14,352
		3,642,711	**3,358,393**

25. Auditors remuneration

	2016	2015
Fees	4,472	4,707

26. Allowance for receivable impairment (Bad debts)

	2016	2015
Allowance for impairment	1,418,342	1,423,127

27. Electricity and Chemicals

	2016	2015
Electricity	164,860	106,767
Chemicals	26,990	26,776
	191,850	**133,543**

Notes to the Financial Statements

Figures in Rand thousand		2016	2015

28. Employee costs

		2016	2015
Basic salaries		567,592	535,709
Other allowances		104,339	87,032
Pension costs		88,204	79,842
Medical aid - company contributions		56,118	49,416
Leave pay		5,991	10,106
Post retirement benefit plan cost (Defined contribution plan)		10,585	4,626
Housing benefits and allowances		7,088	3,039
		839,917	**769,770**

	2016	2015
Average number of employees employed during the year		
- Permanent	2,563	2,536

29. Interest revenue

	2016	2015
Interest earned - sweeping account	27,706	10,141
Interest on impaired accounts	78,525	73,678
	106,231	**83,819**

30. Finance costs

	2016	2015
Interest paid - Shareholder loans and Finance leases	345,912	309,123

31. 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.

32. Cash generated from operations

	Note	2016	2015
Surplus		713,061	582,374
Adjustments for:			
Depreciation, amortisation and impairments	3&4	240,699	185,624
Allowance for impairment	26	1,418,342	1,423,127
Movements in retirement benefit assets and liabilities	15	2,448	(3,185)
Movements in provisions	18	(5,766)	3,392
Loss on disposal of property, plant and equipment		84	1,781
Developer funded asset income	3	(166,571)	(147,456)
Changes in working capital:			
Inventories	5	(2,221)	(4,142)
Other receivables	10	(1,256)	(197)
Consumer debtors	11&26	(1,547,092)	(1,309,551)
Trade and other payables from exchange transactions	17	(145,211)	(85,040)
Unspent conditional grants	16	(2,260)	2,260
Trade payables in group companies	6	6,234	(19,129)
		510,491	**629,858**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Property, plant and equipment	376,125	405,964

The commitments disclosed above relate only to construction contracts with suppliers. Other procurement contracts with suppliers are subject to the demand or requirements of Johannesburg Water and as such, there is no fixed future obligation or commitment in respect of these contracts.

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:		
Loans	264,850	223,024
Grants and subsidies	51,002	182,940
Own funding	60,273	-
	376,125	**405,964**

Operating leases - as lessee

Minimum lease payments due

• within one year	38,156	30,606
• in second to fifth year inclusive	122,524	63,379
	160,680	**93,985**

Operating lease payments represent rentals payable by the company for certain of its office properties and equipment. 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 are subject to escalation clauses.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

34. Related parties

Related parties disclosed in this note are restricted to the City of Johannesburg Metropolitan Municipality and its subsidiaries only.

Relationships	
Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company (SOC) Ltd City Power Johannesburg (SOC) Ltd Johannesburg City Parks and Zoo (NPC) Johannesburg Development Agency (SOC) Ltd Johannesburg Metropolitan Bus Services (SOC) Ltd Johannesburg Roads Agency (SOC) Ltd Johannesburg Social Housing Company (SOC) Ltd Metropolitan Trading Company (SOC) Ltd Pikitup Johannesburg (SOC) Ltd The Johannesburg Civic Theatre (SOC) Ltd The Johannesburg Fresh Produce Market (SOC) Ltd
Members of key management	Directors' emoluments and other Key Management Personnel Remuneration - Note 35
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.

Related party balances

Loan amounts owing to related parties		
City of Johannesburg Metropolitan Municipality -Net current liabilities	637,916	274,257
City of Johannesburg Metropolitan Municipality - Long term Loans	2,841,662	2,926,633
Finance lease obligation: Shareholder	21,311	9,800
Short term portion of long term loans	537,732	512,559
	4,038,621	**3,723,249**

Related party balances

Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	588,572	643,470
Johannesburg Roads Agency (SOC) Ltd - General	10	2
	588,582	**643,472**

Amounts owing to related parties (excluding long term liabilities)		
City of Johannesburg Metropolitan Municipality	1,785,532	1,440,085
City Power Johannesburg (SOC) Ltd	36	-
City of Johannesburg Property Company (SOC) Ltd	6	26
Johannesburg City Parks and Zoo (NPC)	313	458
Johannesburg Roads Agency (SOC) Ltd	9,528	3,150
Johannesburg Metropolitan Bus Services (SOC) Ltd t/a Metrobus	-	3
	1,795,415	**1,443,722**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

34. Related parties (continued)

Related party transactions

Sales to related parties		
City of Johannesburg Metropolitan Municipality	232,708	1,235
Johannesburg Social Housing Company (SOC) Ltd	6,494	-
Johannesburg Metropolitan Bus Services (SOC) Ltd	6,746	-
Pikitup Johannesburg (SOC) Ltd	2,181	-
City Power Johannesburg (SOC) Ltd	6,242	-
Johannesburg Civic Theatre (SOC) Ltd	948	-
Johannesburg City Parks and Zoo (NPC)	16,302	1
Johannesburg Roads Agency (SOC) Ltd	6,804	21
The Johannesburg Fresh Produce Market (SOC) Ltd	13,405	-
	291,830	**1,257**

Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(213,572)	(261,675)
Pikitup Johannesburg (SOC) Ltd	(751)	311
City Power Johannesburg (SOC) Ltd	(72,495)	(61)
City of Johannesburg Property Company (SOC) Ltd	(46)	(23)
Johannesburg Metrobus	(5)	(19)
Johannesburg City Parks and Zoo (NPC)	(716)	(442)
Johannesburg Roads Agency (SOC) Ltd	(17,467)	(8,470)
	(305,052)	**(270,379)**

Interest on shareholder loans and sweeping account		
Interest earned on sweeping account	27,705	10,141
Interest paid on shareholder loans	(349,463)	(317,470)
	(321,758)	**(307,329)**

All transactions with group companies are conducted at arms length.

Figures in Rand thousand

Notes to the Financial Statements

35. Directors' emoluments and other Key Management Personnel Remuneration

The emoluments paid to the directors, senior management and members of the audit committee is reflected hereunder.

Executive directors

2016	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
LT Dhlamini - Managing Director	1,662	126	358	231	2,377
CB Shongwe - Financial Director	1,406	106	102	207	1,821
	3,068	**232**	**460**	**438**	**4,198**

2015	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
LT Dhlamini - Managing Director	1,526	-	366	213	2,105
CB Shongwe - Financial Director	1,348	-	84	197	1,629
	2,874	**-**	**450**	**410**	**3,734**

Non executive directors

Services rendered as director of company		
N Govender (Retired 03/02/2015)	-	143
ZD Hlatshwayo	166	40
SN Khondlo	105	21
JB Manche (Retired 03/02/2015)	-	99
JJH Mateya	245	296
MP Matji	140	66
K Mdutshane	371	350
G Moloi	55	90
C Motau	278	156
N Motlabane	211	74
N Msezane (Retired 03/02/2015)	-	90
KPM Simelane	402	259
NC Skeepers (Retired 03/02/2015)	-	128
	1,973	**1,812**

Services rendered as independent members of the audit committee		
R Buys	91	112
V Mokwena	91	113
Z Samsam	84	113
	266	**338**

Notes to the Financial Statements

Figures in Rand thousand

35. Directors' emoluments and other Key Management Personnel Remuneration (continued)

Senior Management

2016	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
GJ Luden	1,131	13	10	270	1,424
N J Mukwevho	1,440	159	176	206	1,981
D Tshabalala (Resigned 30/06/2016)	935	-	-	62	997
BQ Zimu (Retired on 31/07/2015)	285	145	-	15	445
H Matthews	898	-	96	132	1,126
T Fikizolo	890	-	-	141	1,031
PJ Shabalala (Resigned 08/04/2016)	609	-	-	101	710
	6,188	**317**	**282**	**927**	**7,714**

2015	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
GJ Luden	1,062	-	-	283	1,345
JM Methula (Retired 19/09/2014)	327	-	36	20	383
NJ Mukwevho	1,389	-	184	199	1,772
D Tshabalala	920	-	-	60	980
BQ Zimu (Retired on 31/07/2015)	1,309	-	-	173	1,482
	5,007	**-**	**220**	**735**	**5,962**

36. Comparatives restated

The comparative figures have been restated as a result of prior year adjustments as per note 37.

Figures in Rand thousand

37. Prior year adjustments (errors)

37.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has recalculated the accrual value in relation to the 2014 and 2015 financial years. These transactions results in an adjustment to revenue for the 2014 and 2015 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2015	2014
Impact on Statement of Financial Position		
Decrease in Consumer debtors: Exchange transactions	(89,622)	(105,130)
Impact on Statement of Financial Performance		
Decrease in Revenue from exchange transactions	(89,622)	(105,130)
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(89,622)	(105,130)

37.2 Bad Debt Write off reversals

The City of Johannesburg Metropolitan Municipality has performed bad debt write off reversals during the 2016 financial year which relates to the R3.5 billion write off performed in the 2015 financial year. This has been accounted for as a prior period adjustment accordingly.

	2015	
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions (Trade receivables)	120,622	-
(Decrease) in Consumer debtors: Exchange transactions (Allowance for impairment)	(120,622)	-
Impact on Statement of Financial Performance		
(Increase) in Operating expenses (Bad debt contributions)	(120,622)	-
Decrease in Operating expenses (Bad debt write offs)	120,622	-
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	-	-

37.3 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 is as follows:

	2015	2014
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(89,622)	(105,130)

Figures in Rand thousand 2016 2015

Notes to the Financial Statements

38. 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 necessary to cover future commitments. The company manages liquidity risk through an on-going 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 2016	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	1,819,610	839,217	1,692,853	1,237,507
Finance lease obligation: Shareholder	4,531	4,430	12,350	-
Finance lease obligation: Other	1,545	848	113	-
Trade payables with group companies	9,872	-	-	-
Trade and other payables from exchange transactions	1,247,985	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	1,499,699	777,099	1,823,833	1,330,614
Finance lease obligation: Shareholder	2,359	2,252	5,189	-
Finance lease obligation: Other	1,290	1,086	419	-
Trade payables with group companies	3,635	-	-	-
Trade and other payables from exchange transactions	1,319,856	-	-	-

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**	2016	2015
Bank sweeping (+1%)	7.12%	3,306	3,303
Bank sweeping (-1%)		(3,306)	(3,303)
Shareholder loan (Jibar linked) (+1%)	6.88%	955	1,316
Shareholder loan (Jibar linked) (- 1%)		(955)	(1,316)

Figures in Rand thousand 2016 2015

38. Risk management (continued)

Credit risk

Credit risks 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 evaluates credit risk relating to customers on an on-going 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 note 12.

39. Unauthorised, fruitless and wasteful expenditure

There was no unauthorised, fruitless and wasteful expenditure during the current and comparative years.

40. Deviations from formal procurement processes

Product Category	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Emergencies	-	17,747	17,747
Sole Suppliers	19,908	606	20,514
Impracticality	233,205	35,678	268,883
	253,113	**54,031**	**307,144**

The table above indicates instances where it was impractical to invite competitive bids for specific requirements. The company's supply chain management policy and the Local Government Municipal Finance Management Act, 2003, as per Regulation 36(1) allows the Accounting Officer to dispense with the official procurement processes established, to procure any required goods or services through any convenient process which may include direct negotiations or price quotations in the following instances:

- Emergencies – where immediate action is necessary to avoid a dangerous or risky situation or misery or disaster
- Sole suppliers – where such goods or services are produced or available from a single provider only
- Any other exceptional cases where it is impractical or impossible to follow the official procurement processes

It is further noted that the deviations referred to above have been ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers which are purely of a technical nature. All these deviations have also in terms of the regulations been reported to the board of directors as required. Total deviations of R307,1 million (2014/15: R265,2 million) for the period under review indicates an increase of 16% compared to the previous period.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

41. Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance	25,616	12,238
Irregular expenditure current year identified in current year	20,010	13,378
Irregular expenditure prior year identified in current year	3,332	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
Total	**48,958**	**25,616**

Irregular expenditure for the prior year identified in current year

This irregular expenditure emanates from an amendment to a contract that was awarded to a service provider in September 2011 who managed the entity's farm over a period of 6 years, and was occasioned by an element of security services that was previously not part of the original contract, but subsequently included and approved by one executive manager who has since resigned from the entity. The amendment to this contract was never presented to the various bid committees and the accounting officer for consideration and approval.

To date, disciplinary action has yet to be taken and investigations are still underway on the matter.

This amounted to R3,332 for the prior periods.

Irregular expenditure for the current year identified in current year emanated as follows:

- R1,000 for the continued payments in respect of the security contract on the farm as detailed above.
- R 371 on contract JW 13591 for the supply and installation of water saving cisterns, in which the criteria applied in the evaluation and adjudication of the competitive bidding process for the contract differed from the original bid specifications initially approved by the bid specifications committee.
- R18,639 on contract JW CHR 026/15 for the provision of human resource based security services, in which service providers who were recommended for further evaluation as per the compliance evaluation sheets were not evaluated further based on site visit outcomes which were not properly highlighted as disqualification criterion in the bid documentation.

Analysis of expenditure awaiting condonation per age classification

Current year	20,010	13,378
Prior years	28,948	12,238

The prior year balance on irregular expenditure of R25,616 has been approved by the Board of Directors for condonation and write off as irrecoverable, since no official benefitted personally and there was no loss to the entity. This was as a result of accepting BBBEE certificates that were neither original nor certified copies. The required condonation although already submitted to the City of Johannesburg Metropolitan Council for consideration, is yet to be finally approved and confirmed by the City of Johannesburg Metropolitan Council and National Treasury.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

41. Irregular expenditure (continued)

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	2016
SECURITY SERVICE ON FARM An amendment to a contract that was awarded to a service provider to manage the Johannesburg Water farm over a period of 6 years which includes security that was previously not part of the original contract but subsequently included and approved by one executive manager who has since resigned from Johannesburg Water. The amendment to this contract was never presented to the various bid committees and the accounting officer for consideration and approval.	No disciplinary steps taken as yet until a full investigation has been conducted.	1,000
JW 13591: SUPPLY AND INSTALLATION OF WATER SAVING CISTERNS In the contract for the supply and installation of water saving cisterns, the criteria applied in the evaluation and adjudication of the competitive bidding process for this contract differed from the original bid specifications initially approved by the bid specifications committee. A further specification criterion was introduced after the bid was already published without clearly clarifying the submission and evaluation requirements to bidders.	No disciplinary steps taken as yet until a full investigation has been conducted.	371
JW CHR 026/15: PROVISION OF HUMAN RESOURCE BASED SECURITY CONTRACT In the bid for the provision of human resource based security services, service providers who were recommended for further evaluation as per the compliance evaluation sheets were not evaluated further based on site visit outcomes which were not properly highlighted as disqualification criterion in the bid documentation. Accordingly the reasons for disqualification contradicted the results of the evaluation and this contravened the requirements of the SCM policy and MFMA.	No disciplinary steps taken as yet until a full investigation has been conducted.	18,639
Total		**20,010**

Details of irregular expenditure not recoverable (not condoned)
Incident

None	-

Figures in Rand thousand	2016	2015

42. Actual capital expenditure versus budgeted capital expenditure

Refer below for the comparison of actual capital expenditure versus budgeted capital expenditure per source of funding.

	2016	2015
Capital budget for the year	792,060	1,091,585
Actual spend for the year	(772,392)	(1,058,794)
	19,668	**32,791**
Actual spend as a percentage of budget	97.5 %	97.0 %

Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	475,000	-	475,000	474,455	545
Own Funding	11,000	-	11,000	4,532	6,468
Grants and subsidies	306,060	-	306,060	293,406	12,654
	792,060	**-**	**792,060**	**772,393**	**19,667**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

43. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	167	28
Current year fee	4,472	4,707
Amount paid - current year	(4,472)	(4,540)
Amount paid - previous years	(167)	(28)
	-	**167**

PAYE and UIF

Opening balance	9,784	9,161
Current year contributions	140,475	121,635
Amount paid - current year	(129,785)	(121,012)
Amount paid - previous years	(9,784)	-
	10,690	**9,784**

Pension and Medical Aid Contributions

Current year contributions	211,856	195,218
Amount paid - current year	(211,856)	(195,218)
	-	**-**

44. Change in accounting estimates

Useful lives of Property, plant and equipment

The residual values, depreciation methods and useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The useful lives of the following categories of property, plant and equipment have been reviewed and adjusted by management in the current financial year as follows:

Water meters useful lives have changed from between 4 to 10 years, to between 4 to 15 years. The impact of the change in estimate is a decrease in the current year depreciation by R 17.

The plant and machinery range remains 10 to 40 years as described in the policy, however the sub classes within plant and machinery have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R 1 915.

Minor plant useful lives have changed from between 5 to 10 years, to between 5 to 13 years. The impact of the change in estimate is a decrease in the current year depreciation by R 364.

Computer Equipment range remains 4 to 15 years as described in the policy, however the sub-classes within computer equipment have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R1.