



EAST RAND WATER CARE COMPANY (ERWAT) NPC
(REGISTRATION NUMBER 1992/005753/08)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

General Information

| | |
|---|---|
| Legislation governing the municipal entity's operations. | Municipal Finance Management Act (Act No. 56 of 2003) and the Companies Act (Act No. 71 of 2008). The annual financial statements have been audited in compliance with the Companies Act and Municipal Finance Management Act. |
| Accounting Officer | FM Mabunda (Acting) - N P Twala (resigned 30 June 2016) |
| Chief Financial Officer (CFO) | W I Louw |
| Directors | J Mojapelo (Chairperson) MM Mochatsi EE Themba N Koni (previously - N Sidondi) NP Twala (Managing director - resigned 30 June 2016) K Wall EM Phasha (Deceased October 2015) L Bokaba D Coovadia C Cornish |
| Registered office | Hartebeesfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619 |
| Business address | Hartebeesfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619 |
| Postal address | P O Box 13106 Norkem Park 1631 |
| Bankers | ABSA Bank |
| Auditors | Auditor-General South Africa 61 Central Street, Houghton |
| Secretary | Fushion Corporate Secretarial Services (Pty) Ltd |
| Company registration number | 1992/005753/08 |
| Preparer | The annual financial statements was internally compiled by: Y Maharaj (B.Com) Assistant Financial Manager |
| Reviewers | Internally reviewed by: E Botha (B.Com - B.Compt) Financial Manager W I Louw (B.Compt Hons) Chief Financial Officer |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Index

The reports and statements set out below comprise the annual financial statements presented to the AGSA for audit:

| Index | Page |
|--|-------------|
| Directors' Responsibility and Approval | 3 |
| Directors' Report | 4 |
| Statement of Financial Position | 5 |
| Statement of Financial Performance | 6 |
| Statement of Changes in Net Assets | 7 |
| Cash Flow Statement | 8 |
| Statement of Comparison of Budget and Actual Amounts (Appropriation Statement) | 9 - 13 |
| Accounting Policies | 14 - 28 |
| Notes to the Annual Financial Statements | 29 - 62 |

Abbreviations

| | |
|------|--|
| PPE | Property, plant and equipment |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| MFMA | Municipal Finance Management Act |
| CFO | Chief Financial Officer |
| AGSA | Auditor-General South Africa |
| INCA | Infrastructure Finance Corporation Limited Trading |
| SCM | Supply Chain Management |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Directors' Responsibility and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), 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 the responsibility of the directors to ensure that the annual financial statements fairly represent the state of affairs of ERWAT as at the end of the financial year and the results of its operations and cash flows for the period ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

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

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or deficit 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 ERWAT and all employees are required to maintain the highest ethical standards in ensuring ERWAT's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in ERWAT is on identifying, assessing, managing and monitoring all known forms of risk across ERWAT. While operating risk cannot be fully eliminated, ERWAT 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 deficit.

The directors has reviewed ERWAT'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 ERWAT has access to adequate resources to continue in operational existence for the foreseeable future.

ERWAT is wholly dependent on EKURHULENI METROPOLITAN MUNICIPALITY for continued funding of operations. The annual financial statements are prepared on the basis that ERWAT is a going concern and that the EKURHULENI METROPOLITAN MUNICIPALITY has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the directors are primarily responsible for the financial affairs of ERWAT, they are supported by the entity's internal auditors.

The external auditors are responsible for auditing ERWAT's annual financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented in the Annual Report.

The annual financial statements set out on page 5 to 62, which have been prepared on the going concern basis, were approved by the board of directors on 31 August 2016 and were signed on its behalf by:

Director
J Mojapelo (Chairperson)

Director
FM Mabunda (Acting Chief Executive Officer)

31/8/2016

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Directors' Report

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

1. Review of activities

Main business and operations

ERWAT is a municipal entity. The principal activity of the entity is the conveyance and treatment of waste water and the provision of related engineering services and products. The operating results and state of affairs of the Entity are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the entity was R113 254 142 (2015: restated surplus R108 327 782, previously stated R113 108 968).

2. Going concern

We draw attention to the fact that at 30 June 2016, the entity had an accumulated surplus of R1 341 111 800 and that the entity's total assets exceed its liabilities by R1 341 111 800.

The existence of ERWAT is dependent on the continued support of Ekurhuleni Metropolitan Municipality by way of service charges for treatment of waste water and the provision of related engineering services paid each year in terms of a service delivery agreement entered into between ERWAT and Ekurhuleni Metropolitan Municipality.

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.

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year, that would require adjustment to or disclosure in the financial statements.

4. Share capital / contributed capital

ERWAT does not have share capital since it is a Non-Profit Company.

5. Secretary

The secretary position of the entity has been contracted to Fushion Corporate Secretarial Services (Pty) Ltd:

Business address

Corporate Corner 2, Unit 2
Marco Polo Street
Highveld
Centurion
0169

Postal address

PO Box 68528
Highveld
0169

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Trade debtors from exchange and non-exchange transactions | 3 | 76 536 084 | 42 285 838 |
| Other receivables from exchange transactions | 4 | 27 770 492 | 57 670 049 |
| Other financial asset | 5 | 8 513 935 | 8 452 987 |
| Cash and cash equivalents | 6 | 305 353 331 | 87 264 592 |
| | | 418 173 842 | 195 673 466 |
| Non-Current Assets | | | |
| Property, plant and equipment and Intangible assets | 7 | 1 722 626 028 | 1 539 483 060 |
| Intangible assets | 8 | 2 272 046 | 2 354 931 |
| | | 1 724 898 074 | 1 541 837 991 |
| Non-Current Assets | | 1 724 898 074 | 1 541 837 991 |
| Current Assets | | 418 173 842 | 195 673 466 |
| Total Assets | | 2 143 071 916 | 1 737 511 457 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 9 | 114 555 249 | 55 824 331 |
| Provisions | 10 | 24 419 038 | 20 397 552 |
| Current portion of long-term borrowings | 11 | 34 320 812 | 10 389 014 |
| Current portion of financial lease obligation | 12 | 366 815 | 97 540 |
| | | 173 661 914 | 86 708 437 |
| Non-Current Liabilities | | | |
| Non-current portion of long-term borrowings | 11 | 598 391 157 | 394 902 335 |
| Non-current portion of finance lease obligation | 12 | 503 045 | 65 027 |
| Employee benefit obligation | 13 | 29 404 000 | 27 978 000 |
| | | 628 298 202 | 422 945 362 |
| Non-Current Liabilities | | 628 298 202 | 422 945 362 |
| Current Liabilities | | 173 661 914 | 86 708 437 |
| Total Liabilities | | 801 960 116 | 509 653 799 |
| Assets | | 2 143 071 916 | 1 737 511 457 |
| Liabilities | | (801 960 116) | (509 653 799) |
| Net Assets | | 1 341 111 800 | 1 227 857 658 |
| Accumulated surplus | | 1 341 111 800 | 1 227 857 658 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand

| | Note(s) | 2016 | 2015 Restated* |
|--------------------------------------|---------|----------------------|----------------------|
| Revenue | | | |
| Service charges | 15 | 575 532 723 | 525 600 660 |
| Development contribution | 16 | 40 228 486 | 16 968 083 |
| (Loss)/Gain on fair value adjustment | | (33 120) | 425 927 |
| Other income | 17 | 109 848 612 | 70 986 025 |
| Interest received | | 13 048 316 | 4 536 216 |
| Dividends received | | 149 705 | 91 137 |
| Government grants & subsidies | 18 | 50 000 000 | 50 000 000 |
| Total revenue | | 788 774 722 | 668 608 048 |
| Expenditure | | | |
| General Expenses | 19 | (66 254 270) | (61 412 473) |
| Employee related costs | 20 | (232 309 608) | (212 253 135) |
| Debt impairment | 21 | (293 121) | (1 502 470) |
| Depreciation and amortisation | 22 | (55 260 644) | (32 561 086) |
| Finance costs | 23 | (54 459 225) | (23 265 274) |
| Repairs and maintenance | | (104 257 657) | (81 462 338) |
| Bulk purchases | 24 | (158 765 235) | (143 284 993) |
| Total expenditure | | (671 599 760) | (555 741 769) |
| Total revenue | | 788 774 722 | 668 608 048 |
| Total expenditure | | (671 599 760) | (555 741 769) |
| Operating surplus | | 117 174 962 | 112 866 279 |
| Loss on disposal of assets | | (3 920 820) | (4 538 497) |
| Surplus for the year | | 113 254 142 | 108 327 782 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|--|----------------------|----------------------|
| Balance at 01 July 2014 as previously reported | 1 123 770 063 | 1 123 770 063 |
| Prior period error - affecting opening accumulated surplus (Note 30) | (4 240 187) | (4 240 187) |
| Restated balance at 01 July 2014 | 1 119 529 876 | 1 119 529 876 |
| Previously reported surplus 2014/15 | 113 108 969 | 113 108 969 |
| Prior period error - affecting performance (Note 30) | (4 781 187) | (4 781 187) |
| Restated surplus 2014/15 | 108 327 782 | 108 327 782 |
| Restated Balance at 01 July 2015 | 1 227 857 658 | 1 227 857 658 |
| Changes in net assets | | |
| Surplus for the year | 113 254 142 | 113 254 142 |
| Total changes | 113 254 142 | 113 254 142 |
| Balance at 30 June 2016 | 1 341 111 800 | 1 341 111 800 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand

| | Note(s) | 2016 | 2015 Restated* |
|---|---------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Service charges | | 575 532 723 | 525 600 660 |
| Development contribution | | 40 228 486 | 16 968 083 |
| Grants | | 50 000 000 | 50 000 000 |
| Interest income | | 13 048 316 | 4 536 216 |
| Dividends earned | | 149 705 | 91 137 |
| Other receipts | | 105 204 802 | 20 589 219 |
| | | 784 164 032 | 617 785 315 |
| Payments | | | |
| Employee costs | | (226 862 122) | (203 690 693) |
| Suppliers and other | | (270 894 569) | (310 605 811) |
| Finance costs | | (54 204 968) | (23 028 122) |
| | | (551 961 659) | (537 324 626) |
| Total receipts | | 784 164 032 | 617 785 315 |
| Total payments | | (551 961 659) | (537 324 626) |
| Net cash flows from operating activities | 26 | 232 202 373 | 80 460 689 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | | (240 689 559) | (307 136 865) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 101 520 | 73 847 |
| Purchase of other intangible assets | | (443 523) | (750 233) |
| Net cash flows from investing activities | | (241 031 562) | (307 813 251) |
| Cash flows from financing activities | | | |
| Long - term borrowing raised | | 233 059 731 | 314 846 689 |
| Repayment of long - term borrowing | | (5 639 111) | (13 708 711) |
| Net finance lease payments | | (502 692) | (334 692) |
| Net cash flows from financing activities | | 226 917 928 | 300 803 286 |
| Net increase in cash and cash equivalents | | 218 088 739 | 73 450 722 |
| Cash and cash equivalents at the beginning of the year | | 87 264 592 | 13 813 870 |
| Cash and cash equivalents at the end of the year | 6 | 305 353 331 | 87 264 592 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|---|--------------------------|--|---|----------------------|----------------------|--------------------------|-------------------|-------------------------------------|--|
| Financial Performance | | | | | | | | | | | |
| Service charges | 575 532 723 | - | 575 532 723 | - | - | 575 532 723 | 575 532 723 | - | 8 478 021 | 100 % | 100 % |
| Investment revenue | 4 720 000 | - | 4 720 000 | - | - | 4 720 000 | 13 198 021 | - | 24 619 663 | 280 % | 280 % |
| Other own revenue | 125 424 315 | - | 125 424 315 | - | - | 125 424 315 | 150 043 978 | - | 33 097 684 | 120 % | 120 % |
| Total revenue (excluding capital transfers and contributions) | 705 677 038 | - | 705 677 038 | - | - | 705 677 038 | 738 774 722 | - | 33 097 684 | 105 % | 105 % |
| Employee costs including directors fees | (253 068 122) | - | (253 068 122) | - | - | (253 068 122) | (232 309 608) | - | 20 758 514 | 92 % | 92 % |
| Debt impairment | (269 199) | - | (269 199) | - | - | (269 199) | (293 121) | - | (23 922) | 109 % | 109 % |
| Depreciation and asset impairment | (33 077 449) | - | (33 077 449) | - | - | (33 077 449) | (55 260 644) | - | (22 183 195) | 167 % | 167 % |
| Finance charges | (47 754 136) | - | (47 754 136) | - | - | (47 754 136) | (54 459 225) | - | (6 705 089) | 114 % | 114 % |
| Materials and bulk purchases | (184 538 607) | - | (184 538 607) | - | - | (184 538 607) | (158 765 235) | - | 25 773 372 | 86 % | 86 % |
| Other expenditure | (186 969 525) | - | (186 969 525) | - | - | (186 969 525) | (174 432 747) | - | 12 536 778 | 93 % | 93 % |
| Total expenditure | (705 677 038) | - | (705 677 038) | - | - | (705 677 038) | (675 520 580) | - | 30 156 458 | 96 % | 96 % |
| Total revenue (excluding capital transfers and contributions) | 705 677 038 | - | 705 677 038 | - | - | 705 677 038 | 738 774 722 | - | 33 097 684 | 105 % | 105 % |
| Total expenditure | (705 677 038) | - | (705 677 038) | - | - | (705 677 038) | (675 520 580) | - | 30 156 458 | 96 % | 96 % |
| Surplus/(Deficit) | - | - | - | - | - | - | 63 254 142 | - | 63 254 142 | 100 % | 100 % |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments (i.t.o. s31 of the MFMA) | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|--------------------|---|--|--|---|--------------------|--------------------|--------------------------|----------------------|-------------------------------------|--|
| Transfers recognised - capital | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 50 000 000 | - | - | 100 % | 100 % |
| Capital transfers and contributions | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 50 000 000 | - | - | 100 % | 100 % |
| Surplus (Deficit) after capital transfers and contributions | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 113 254 142 | - | 63 254 142 | 227 % | 227 % |
| Surplus (Deficit) after capital transfers and contributions | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 113 254 142 | - | 63 254 142 | 227 % | 227 % |
| Surplus/(Deficit) for the year | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 113 254 142 | - | 63 254 142 | 227 % | 227 % |
| Capital expenditure and funds sources | | | | | | | | | | | |
| Total capital expenditure | 397 375 400 | - | 397 375 400 | - | - | 397 375 400 | 242 343 067 | - | (155 032 333) | 61 % | 61 % |
| Sources of capital funds | | | | | | | | | | | |
| EMM Grants | 50 000 000 | - | 50 000 000 | - | - | 50 000 000 | 50 000 000 | - | - | 100 % | 100 % |
| Borrowing | 155 677 282 | - | 155 677 282 | - | - | 155 677 282 | 52 491 220 | - | (103 186 062) | 34 % | 34 % |
| Internally generated funds | 191 698 118 | - | 191 698 118 | - | - | 191 698 118 | 139 851 847 | - | (51 846 271) | 73 % | 73 % |
| Total sources of capital funds | 397 375 400 | - | 397 375 400 | - | - | 397 375 400 | 242 343 067 | - | (155 032 333) | 61 % | 61 % |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---------------------|---|---------------------|--|---|---------------------|--------------------|--------------------------|----------------------|-------------------------------------|--|
| Cash flows | | | | | | | | | | | |
| Net cash from (used) operating | 74 600 345 | - | 74 600 345 | - | - | 74 600 345 | 232 202 373 | - | 157 602 028 | 311 % | 311 % |
| Net cash from (used) investing | (397 375 400) | - | (397 375 400) | - | - | (397 375 400) | (241 031 562) | - | 156 343 838 | 61 % | 51 % |
| Net cash from (used) financing | 224 642 668 | - | 224 642 668 | - | - | 224 642 668 | 226 917 928 | - | 2 275 260 | 101 % | 101 % |
| Net increase/(decrease) in cash and cash equivalents | (98 132 387) | - | (98 132 387) | - | - | (98 132 387) | 218 088 739 | - | 316 221 126 | (222)% | (222)% |
| Cash and cash equivalents at the beginning of the year | 71 155 190 | - | 71 155 190 | - | - | 71 155 190 | 87 264 592 | - | 16 109 402 | 123 % | 123 % |
| Net increase / (decrease) in cash and cash equivalents | (98 132 387) | - | (98 132 387) | - | - | (98 132 387) | 218 088 739 | - | (316 221 126) | (222)% | (222)% |
| Cash and cash equivalents at the beginning of the year | 71 155 190 | - | 71 155 190 | - | - | 71 155 190 | 87 264 592 | - | (16 109 402) | 123 % | 123 % |
| Cash and cash equivalents at year end | (26 977 197) | - | (26 977 197) | - | - | (26 977 197) | 305 353 331 | - | (332 330 528) | (1 132)% | (1 132)% |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|--|-----------------------------------|---|-------------------------|--------------------------|
| 2015 | | | | |
| Financial Performance | | | | |
| Service charges | | | | 525 600 060 |
| Investment revenue | | | | 4 627 353 |
| Other own revenue | | | | 88 380 035 |
| Total revenue (excluding capital transfers and contributions) | | | | 618 608 048 |
| Employee costs | | | | (212 253 135) |
| Debt impairment | | | | (1 502 470) |
| Depreciation and asset impairment | | | | (32 561 086) |
| Finance charges | | | | (23 265 274) |
| Materials and bulk purchases | | | | (143 284 093) |
| Other expenditure | | | | (147 413 308) |
| Total expenditure | | | | (560 280 266) |
| Total revenue (excluding capital transfers and contributions) | | | | 618 608 048 |
| Total expenditure | | | | (560 280 266) |
| Surplus/(Deficit) | | | | 58 327 782 |
| Transfers recognised - capital | | | | 50 000 000 |
| Surplus/(Deficit) | | | | 58 327 782 |
| Capital transfers and contributions | | | | 50 000 000 |
| Surplus (Deficit) after capital transfers and contributions | | | | 108 327 782 |
| Surplus (Deficit) after capital transfers and contributions | | | | 108 327 782 |
| Surplus/(Deficit) for the year | | | | 108 327 782 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|-----------------------------------|---|-------------------------|--------------------------|
| Capital expenditure and funds sources | | | | |
| Total capital expenditure | | | | 308 221 790 |
| Sources of capital funds | | | | 50 000 000 |
| Transfers recognised - capital | | | | 128 785 541 |
| Borrowing | | | | 129 436 249 |
| Internally generated funds | | | | |
| Total sources of capital funds | | | | 308 221 790 |
| Cash flows | | | | |
| Net cash from (used) operating | | | | 80 460 689 |
| Net cash from (used) investing | | | | (307 813 251) |
| Net cash from (used) financing | | | | 300 803 286 |
| Net increase/(decrease) in cash and cash equivalents | | | | 73 450 724 |
| Cash and cash equivalents at the beginning of the year | | | | 13 813 870 |
| Net increase / (decrease) in cash and cash equivalents | - | - | - | 73 450 724 |
| Cash and cash equivalents at the beginning of the year | - | - | - | 13 813 870 |
| Cash and cash equivalents at year end | | | | 87 264 594 |

The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 01 July 2015 to 30 June 2016.

The budget and accounting bases are the same: both are on the accrual basis. The financial statements are prepared using a classification on the nature of expenses in the statement of financial performance.

The variances between actual amounts verse budgeted amount are explained in note 37 Budget differences.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Significant judgmental and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Financial assets carried at cost, amortised cost, and fair value

ERWAT assesses its financial assets carried at cost, amortised cost and fair value for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment of Receivables

The impairment for trade receivables, held to maturity investments, loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

Other financial assets

ERWAT follows the guidance of GRAP 104 to determine when other financial assets are impaired. This determination requires significant judgment. In making this judgment, ERWAT evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Short-term investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the National Rating Definitions. ERWAT's exposure to any one financial institution, for short-term investments, is limited as follows:

> A1+ / F1+ Short Term Rating: 5% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report;

> A1 / F1 Short Term Rating: 4% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

Operating lease commitments - entity as lessor or lessee

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

Post-employment benefits

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subjects to significant uncertainty.

Impairment of property, plant and equipment

The calculation in respect of impairment of plant, property and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an across all classes of plant, property and equipment.

Provisions, contingent liabilities and contingent assets

Management's judgment is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

Useful lives of plant, property and equipment held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets is also based on management's judgment on whether the assets will be sold or used to the end of their useful lives, and an assessment of their likely condition at that time.

Budget Information

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

The accounting policy applied is consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by ERWAT is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. ERWAT uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to ERWAT for similar financial instruments.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

Impairment testing

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

ERWAT reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 Property, plant and equipment and Intangible assets

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

- it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation recognised on property, plant and equipment is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation starts when the asset is available for use. Work in progress is not depreciated. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets.

The depreciation rates are based on the following estimated useful lives:

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.3 Property, plant and equipment and intangible assets (continued)

| Item | Estimated useful life (Range in Years) |
|----------------------------------|--|
| Land & buildings | |
| • Land | Indefinite |
| • Buildings | 14 - 80 (Changed 2015:10 - 80) |
| Infrastructure | |
| • Waste Water Purification Works | 02 - 82 (Changed 2015: 03 -82) |
| • Electrical components | 14- 68 (Changed 2015:15 - 40) |
| • Mechanical components | 02 - 68 (Changed 2015: 03 - 40) |
| • Perimeter protection | 08 - 80 (Changed 2015: 08 - 27) |
| • Roads | 25 - 68 (Changed 2015: 25 - 57) |
| • Leased plant | 13 - 57 (Changed 2015: 13 - 68) |
| Furniture and fixtures | |
| • Furniture and fittings | 05 - 80 |
| • IT equipment | 04 - 23 |
| • Office equipment | 05 - 35 |
| • Leased equipment | 03 - 04 |
| Motor vehicles | 06 - 27 |
| Plant and machinery | 05 - 29 |

Work in progress represents capital expenditure incurred on projects/assets under construction, not yet completed or not yet available for use at period end. Work in progress is not depreciated.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an asset's carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the asset's recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.4 Intangible assets

An asset is identified as an intangible asset when it is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

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.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Intangible assets (continued)

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Amortisation recognised on intangible assets is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. 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 at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

| Item | Estimated Useful life (Range in Years) |
|-------------------|--|
| Computer software | 01 - 23 (Changed: 2015 05 - 23) |

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition or
- are held for trading.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability

b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

c) Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Financial instruments (continued)

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|--|
| Trade debtors | Financial asset measured at amortised cost |
| Receivables from exchange and non-exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Other financial assets | Financial asset measured at fair value |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|-------------------------------------|--|
| Long-term borrowings | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value are quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Financial instruments (continued)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Employment benefit

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 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.

Retirement funds

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

The entity does not apply "defined benefit accounting" to the defined benefit funds to which it is a member, where these funds as classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit exists, based on available information, and which may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

The entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the entity is associated, a member (subject to the applicable conditions of service) on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the entity for the remaining portion.

1.7 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and 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 amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

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

a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

b) Incentive bonus provision

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors if they are satisfied with ERWAT's performance at the end of the financial year.

1.8 Impairment of cash-generating assets and non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Non-cash-generating assets are assets other than cash-generating assets.

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

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists the entity estimates the recoverable amount or the recoverable service amount of the asset.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.8 Impairment of cash-generating assets and non-cash-generating assets (continued)

Irrespective of whether there is any indication of impairment, the entity also assesses an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable or recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

When estimating the value in use of a cash-generating asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating asset is determined using the most appropriate of the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount or recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.9 Revenue from exchange transactions

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Revenue from exchange transactions (continued)

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Income earned on agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the entity's right to receive payment is established.

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

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

1.10 Revenue from non-exchange transactions

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

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers, including Grants and Receipts

The entity recognises an asset in respect of transfers when the transferred resources meets the definition of an asset and satisfies the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the entity recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity discloses the nature and type of services in-kind received during the reporting period.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases – lessor

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

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property 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.

Minimum 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 of on the remaining balance of the liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any contingent rents are expensed in the period in which they are incurred.

1.12 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. All borrowing costs are recognised as an expense in the period in which they are incurred.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.13 Income Tax

The Entity is exempt from tax due to it being a Non-Profit Company.

1.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Budget information

The approved budget is prepared in accordance with legislative requirements on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of these financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.18 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.19 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date, the information is disclosed in the financial statements.

1.20 Commitments

The entity discloses commitments for each class of capital assets (PPE and Intangible assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

1.21 Going concern

These annual financial statements have been prepared on a going concern basis.

1.22 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.23 Change in accounting estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Prospective application of recognising the effect of a change in an accounting estimate is recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The effect of a change in an accounting estimate, other than to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, is recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

(b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it is recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change.

Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit or the surplus or deficit of both the current period and future periods. However, a change in the estimated useful life of or the expected pattern of consumption of economic benefits or service potential embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

1.24 Prior period error

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of GRAP if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors not discovered until a subsequent period, are corrected in the comparative information presented in the financial statements for that subsequent period.

The entity corrects material prior period errors retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity restates the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity restates the comparative information to correct the error prospectively from the earliest date practicable.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|--|--|--|
| • GRAP 18: Segment Reporting | Not yet set | Impact in the process of being assessed |
| • GRAP 20: Related party Disclosures | Not yet set | Not material - mostly inline with IPSA20 |
| • GRAP 32: Service Concession Arrangements: Grantor | Not yet set | None - currently not applicable |
| • GRAP 108: Statutory Receivables | Not yet set | None - currently not applicable |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | Not yet set | None - currently not applicable |
| • GRAP 16 (as amended 2015): Investment Property | 01 April 2016 | Impact in the process of being assessed |
| • GRAP 17 (as amended 2015): Property, Plant and Equipment | 01 April 2016 | Impact in the process of being assessed |
| • GRAP 109: Accounting by Principals and Agents | Not yet set | None - currently not applicable |
| • GRAP 21 (as amended 2015): Impairment of non-cash-generating assets | 01 April 2017 | Impact in the process of being assessed |
| • GRAP 26 (as amended 2015): Impairment of cash-generating assets | 01 April 2017 | Impact in the process of being assessed |

3. Trade debtors from exchange and non-exchange transactions

Gross trade debtors from exchange transactions

| | | |
|----------------------------------|-------------------|-------------------|
| Business development receivables | 7 509 588 | 3 266 342 |
| Laboratory receivables | 1 757 604 | 1 863 585 |
| Sundry receivables | 756 416 | 1 410 337 |
| Operations receivables | 113 413 | 1 844 919 |
| Related party debtors | 37 873 133 | 19 836 454 |
| | 48 010 154 | 28 221 637 |

Gross trade debtors from non-exchange transactions

| | | |
|--|-------------------|-------------------|
| Related parties - Grant and Development contribution | 31 475 052 | 16 758 000 |
| | 31 475 052 | 16 758 000 |

Less: Allowance for impairment

| | | |
|--|--------------------|--------------------|
| Business development - Provision for bad debts | (1 263 746) | (1 386 924) |
| Laboratory - Provision for bad debts | (1 345 706) | (950 273) |
| Sundry - Provision for bad debts | (339 670) | (356 602) |
| | (2 949 122) | (2 693 799) |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

3. Trade debtors from exchange and non-exchange transactions (continued)

Total net trade debtors from exchange and non-exchange transactions

| | | |
|----------------------------------|-------------------|-------------------|
| Business development receivables | 6 245 842 | 1 879 418 |
| Laboratory receivables | 411 898 | 913 312 |
| Sundry receivables | 416 746 | 1 053 735 |
| Operations receivables | 113 413 | 1 844 919 |
| Related party debtors | 69 348 185 | 36 594 454 |
| | 76 536 084 | 42 285 838 |

Business Development - Trade debtors from exchange transactions

| | | |
|--------------------------------|------------------|------------------|
| Current (0-30 Days) | 3 943 203 | 1 629 194 |
| 31 - 60 Days | 1 211 539 | 416 891 |
| 61 - 90 Days | 854 381 | 405 463 |
| 91 - 120+ Days | 1 500 465 | 814 794 |
| Sub-total | 7 509 588 | 3 266 342 |
| Less: Allowance for impairment | (1 263 746) | (1 386 924) |
| Total | 6 245 842 | 1 879 418 |

Laboratory - Trade debtors from exchange transactions

| | | |
|--------------------------------|------------------|------------------|
| Current (0-30 Days) | 398 964 | 292 910 |
| 31 - 60 Days | 207 731 | 327 928 |
| 61 - 90 Days | 93 737 | 136 117 |
| 91 - 120+ Days | 1 057 172 | 1 106 630 |
| Sub-total | 1 757 604 | 1 863 585 |
| Less: Allowance for impairment | (1 345 706) | (950 273) |
| Total | 411 898 | 913 312 |

Sundry - Trade debtors from exchange transactions

| | | |
|--------------------------------|----------------|------------------|
| Current (0-30 Days) | 416 746 | 934 072 |
| 31 - 60 Days | - | 4 848 |
| 61 - 90 Days | - | 4 254 |
| 91 - 120+ Days | 339 670 | 467 163 |
| Sub-total | 756 416 | 1 410 337 |
| Less: Allowance for impairment | (339 670) | (356 602) |
| Total | 416 746 | 1 053 735 |

Operations - Trade debtors from exchange transactions

| | | |
|--------------------------------|----------------|------------------|
| Current (0-30 Days) | 4 595 | 987 380 |
| 31 - 60 Days | 83 | 766 483 |
| 61 - 90 Days | 102 939 | 1 430 |
| 91 - 120+ Days | 5 796 | 89 626 |
| Sub-total | 113 413 | 1 844 919 |
| Less: Allowance for impairment | - | - |
| Total | 113 413 | 1 844 919 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--|--------------------|--------------------|
| 3. Trade debtors from exchange and non-exchange transactions (continued) | | |
| Related party Trade debtors from exchange transactions | | |
| Current (0 -30 days) | 3 343 022 | 9 287 118 |
| 31 - 60 days | 810 996 | 2 963 691 |
| 61 - 90 days | 15 420 229 | 2 066 193 |
| 91 - 120+ days | 18 298 887 | 5 519 452 |
| Sub-total | 37 873 134 | 19 836 454 |
| Less: Allowance for impairment | - | - |
| Total | 37 873 134 | 19 836 454 |
| Related party Trade debtors from non-exchange transactions | | |
| Current (0 -30 days) | 8 218 326 | - |
| 31 - 60 days | - | - |
| 61 - 90 days | 6 498 726 | - |
| 91 - 120+ days | 16 758 000 | 16 758 000 |
| | 31 475 052 | 16 758 000 |
| Reconciliation of allowance for impairment | | |
| Current (0 -30 days) | (14 614) | (308 678) |
| 31 - 60 days | (13 672) | (75 049) |
| 61 - 90 days | (118 237) | (322 596) |
| 91 - 120+ days | (2 802 599) | (1 987 476) |
| | (2 949 122) | (2 693 799) |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (2 693 799) | (1 439 717) |
| Contributions to allowance | (293 121) | (1 502 470) |
| Debt impairment written off against allowance | 37 798 | 248 388 |
| | (2 949 122) | (2 693 799) |
| Credit quality of trade debtors | | |
| The credit quality of trade debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. | | |
| Trade debtors past due but not impaired | | |
| Trade debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R60 138 404 (2015: R1 957 936) were past due but not impaired. | | |
| The ageing of amounts past due but not impaired is as follows: | | |
| 1 month past due | 2 129 238 | 1 441 101 |
| 2 months past due | 22 851 776 | 224 668 |
| 3 months past due | 35 157 390 | 292 167 |
| Total | 60 138 404 | 1 957 936 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

3. Trade debtors from exchange and non-exchange transactions (continued)

Receivables from exchange transactions encumbered

Receivables with a carrying value of R76 536 084 (2015: R42 285 838) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 11. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd as guarantee for the loan remains in effect.

4. Other receivables from exchange transactions

| | | |
|----------------|-------------------|-------------------|
| Deposits | 2 504 778 | 2 551 574 |
| PAYE - Refund | - | 7 770 |
| Prepayments | 2 347 237 | 33 038 840 |
| Medical Aid | 22 995 | 13 203 |
| VAT receivable | 22 895 482 | 22 058 662 |
| | 27 770 492 | 57 670 049 |

5. Other financial asset

| Name of entity | Carrying amount 2016 | Carrying amount 2015 | Fair value 2016 | Fair value 2015 |
|-----------------------------------|----------------------|----------------------|------------------|------------------|
| Sanlam demutualisation shares | 942 220 | 1 035 567 | 942 220 | 1 035 567 |
| Old Mutual demutualisation shares | 1 472 987 | 1 506 862 | 1 472 987 | 1 506 862 |
| Old mutual unit trust | 6 098 728 | 5 910 558 | 6 098 728 | 5 910 558 |
| | 8 513 935 | 8 452 987 | 8 513 935 | 8 452 987 |

Fair value

The fair values, determined annually at the end of the reporting period, were determined as follows:

- The fair values of listed or quoted investments are based on the quoted market price.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------|--------------------|-------------------|
| Cash on hand | 20 100 | 17 100 |
| Bank balances | 305 333 231 | 87 247 492 |
| | 305 353 331 | 87 264 592 |

The entity had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|------------------------------|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2016 | 30 June 2015 | 30 June 2014 |
| ABSA bank - current account | 302 802 058 | 81 431 231 | 13 565 002 | 302 801 808 | 84 851 231 | 13 565 002 |
| ABSA bank - salary account | 2 531 423 | 2 396 261 | 230 668 | 2 531 423 | 2 396 261 | 230 668 |
| Petty cash and floats | - | - | - | 20 100 | 17 100 | 18 200 |
| Total | 305 333 481 | 83 827 492 | 13 795 670 | 305 353 331 | 87 264 592 | 13 813 870 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015
Restated*

7. Property, plant and equipment and Intangible assets

| | 2016 | | | 2015 | | |
|--|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Land and buildings | 48 613 798 | (4 457 955) | 44 155 843 | 53 287 317 | (6 258 482) | 47 028 835 |
| Plant and machinery | 30 720 832 | (13 184 311) | 17 536 521 | 28 219 601 | (11 439 803) | 16 779 798 |
| Furniture and fixtures | 21 457 766 | (7 084 278) | 14 373 488 | 14 803 013 | (5 799 356) | 9 003 657 |
| Motor vehicles | 41 535 469 | (10 587 493) | 30 947 976 | 30 201 626 | (9 073 931) | 21 127 695 |
| Capital work in progress | 786 125 602 | - | 786 125 602 | 692 222 766 | - | 692 222 766 |
| Infrastructure: Waste water purification works | 1 132 404 324 | (303 823 253) | 828 581 071 | 1 010 697 840 | (257 540 098) | 753 157 742 |
| Leased assets | 1 248 350 | (342 823) | 905 527 | 292 620 | (130 053) | 162 567 |
| Total | 2 062 106 141 | (339 480 113) | 1 722 626 028 | 1 829 724 783 | (290 241 723) | 1 539 483 060 |

Reconciliation of property, plant and equipment and intangible assets - 2016

| | Opening balance | Additions | Disposals | Transfers between classes | Depreciation | Total |
|--|----------------------|--------------------|--------------------|---------------------------|---------------------|----------------------|
| Land and buildings | 47 028 835 | 5 652 758 | (9 593) | (7 796 889) | (719 268) | 44 155 843 |
| Plant and machinery | 16 779 798 | 3 455 491 | (704 088) | (62 685) | (1 931 995) | 17 536 521 |
| Furniture and fixtures | 9 003 657 | 7 192 853 | (253 692) | 21 795 | (1 591 125) | 14 373 488 |
| Motor vehicles | 21 127 695 | 12 292 210 | (301 872) | - | (2 170 057) | 30 947 976 |
| Capital work in progress | 692 222 766 | 150 049 677 | - | (56 146 841) | - | 786 125 602 |
| Infrastructure: Waste water purification works | 753 157 742 | 62 300 825 | (2 753 095) | 63 984 620 | (48 109 021) | 828 581 071 |
| Leased assets | 162 567 | 955 730 | - | - | (212 770) | 905 527 |
| Total | 1 539 483 060 | 241 899 544 | (4 022 340) | - | (54 734 236) | 1 722 626 028 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

7. Property, plant and equipment and intangible assets (continued)

Reconciliation of property, plant and equipment and intangible assets - 2015

| | Opening balance | Additions | Disposals | Transfers between classes | Depreciation | Total |
|--|----------------------|--------------------|--------------------|---------------------------|---------------------|----------------------|
| Land and buildings | 39 834 223 | 7 829 265 | (20 375) | (167) | (614 111) | 47 028 835 |
| Plant and machinery | 13 603 367 | 4 882 882 | (237 102) | 251 268 | (1 720 617) | 16 779 798 |
| Furniture and fixtures | 8 149 176 | 2 432 610 | (240 848) | (6 731) | (1 330 550) | 9 003 657 |
| Motor vehicles | 21 818 121 | 1 556 964 | (181 649) | - | (2 065 741) | 21 127 695 |
| Capital work in progress | 493 175 797 | 222 936 334 | - | (23 889 365) | - | 692 222 766 |
| Infrastructure: Waste water purification works | 691 933 144 | 67 833 502 | (3 907 081) | 23 644 995 | (26 346 818) | 753 157 742 |
| Leased assets | 260 107 | - | - | - | (97 540) | 162 567 |
| | 1 268 773 935 | 307 471 557 | (4 587 055) | - | (32 175 377) | 1 539 483 060 |

Property, plant and equipment

| | |
|-------------------------|-------------------|
| Repairs and Maintenance | (R359 693) |
| Unbundling of assets | (7 414 451) |
| Finance Leased asset | R162 567 |
| Net effect | R7 611 578 |

From the net effect relating to Property, plant and equipment R4 240 187 relates to the years prior to 2014/15 and the error has been corrected in the opening accumulated surplus.

Repairs and Maintenance

The work in progress additions included an item which related to repairs and maintenance expense and was incorrectly recorded as an asset. The assets were decreased by (R359 693), and repairs and maintenance has been increased by R359 693 in 2014/15.

Unbundling of assets:

ERWAT has performed an unbundling of assets to sub-component level. During this process it was discovered that an amount of R10 928 470 (cost) had to be derecognised, the associated accumulated depreciation was R3 514 019 and with a resultant carrying value of (R7 414 451).

Finance Leases

An amount of R162 567 relating to finance lease asset was in error captured to security expense, this has since been corrected.

Leased assets

Carrying value of leased assets in 2014/15 amounted to R7 426 750. However, after an unbundling process that ERWAT undertook it was realised that the carrying value was actually R2 285 698.

Reconciliation of Work-in-Progress 2016

| | Included within Infrastructure | Included within Other PPE | Total |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance | 679 055 208 | 13 167 558 | 692 222 766 |
| Additions/capital expenditure | 146 443 769 | 3 605 909 | 150 049 678 |
| Transferred to completed items | (56 146 842) | - | (56 146 842) |
| | 769 352 135 | 16 773 467 | 786 125 602 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* | |
|---|-----------------------------------|------------------------------|--------------------|
| 7. Property, plant and equipment and Intangible assets (continued) | | | |
| Reconciliation of Work-in-Progress 2015 | | | |
| | Included within Infrastructure | Included within Other PPE | Total |
| Opening balance | 493 175 797 | - | 493 175 797 |
| Additions/capital expenditure | 209 377 651 | 13 558 683 | 222 936 334 |
| Transferred to completed items | (23 498 240) | (391 125) | (23 889 365) |
| | 679 055 208 | 13 167 558 | 692 222 766 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

The work in progress has been restated by (R359 693) due to an expense that was incorrectly captured as an asset. (Prior Period error - note:30)

Grootvlei Biosure plant (Carrying value 2016: R0; 2015 R0) is not currently operational as the Grootvlei mine was liquidated. The contract between ERWAT and the new owners of the Aurora mine could not be renewed due to the financial difficulties the new owners are experiencing. The probability is that the plant can be used in the near future as there will be development in the area where the plant is situated.

Fully depreciated assets with the acquisition cost of R21 406 880 has a nil value at the 30 June 2016. During the useful life review it was anticipated that the assets will be derecognised within the next 06 - 18 months.

Leased Assets:

The following works included under Infrastructure, are leased assets.

| Leased Assets | Cost | Accumulated depreciation | Net book value |
|-----------------|------------------|-----------------------------|-------------------|
| Benoni | 437 677 | (397 529) | 40 148 |
| Dekema | 168 150 | (39 882) | 128 268 |
| Herbert Bickley | 87 719 | (25 118) | 62 601 |
| Rondebult | 2 000 530 | (651 966) | 1 348 564 |
| Rynfield | 654 554 | (110 526) | 544 028 |
| | 3 348 630 | (1 225 021) | 2 123 609 |

The liability is R10 per year per lease and the lease agreements' period is indefinite until both parties decide to cancel the lease agreement. Assets, indirectly related to these works, with a carrying amounts of R2 123 609 (2015:restated R2 285 698, previously - R7 426 750) are included within the class Infrastructure: Waste water purification works above.

8. Intangible assets

| | 2016 | | | 2015 | | |
|-------------------|-----------|---|----------------|-----------|---|----------------|
| | Cost | Accumulated amortisation and accumulated impairment | Carrying value | Cost | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 5 222 735 | (2 950 689) | 2 272 046 | 4 779 212 | (2 424 281) | 2 354 931 |

Reconciliation of intangible assets - 2016

| | Opening balance | Additions | Amortisation | Total |
|-------------------|--------------------|-----------|--------------|-----------|
| Computer software | 2 354 931 | 443 523 | (526 408) | 2 272 046 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

8. Intangible assets (continued)

Reconciliation of intangible assets - 2015

| | Opening balance | Additions | Disposals | Amortisation | Total |
|-------------------|--------------------|-----------|-----------|--------------|-----------|
| Computer software | 2 015 694 | 750 233 | (25 288) | (385 708) | 2 354 931 |

9. Payables from exchange transactions

| | | |
|--|-------------|------------|
| Trade payables | 92 108 965 | 40 558 885 |
| Payments received in advanced - contract in progress | 3 000 000 | 3 000 000 |
| Deposits | 13 780 | 10 230 |
| Accrued bonus | 4 860 696 | 4 279 927 |
| Accrued overtime | 1 470 153 | 1 247 228 |
| Payroll creditors | 23 206 | 20 701 |
| Related party payables | 10 170 353 | 6 095 842 |
| Retention | 2 729 844 | 491 383 |
| Credit balances in debtors | 97 955 | 74 312 |
| Other payables | 80 297 | 8 081 |
| Unidentified deposits | - | 33 088 |
| Cheque reversal | - | 4 654 |
| | 114 555 249 | 55 824 331 |

Accrued bonus

A provision for a 13th cheque, to be paid in November, is raised. As an employee retires, deceases or resigns a pro-rata bonus will be paid out at the specific date.

The directors consider the carrying amount of payables from exchange transactions to approximate fair value.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015
Restated*

10. Provisions

Reconciliation of provisions - June 2016

| | Opening Balance | Additions | Utilised during the year | Total |
|---------------------------|-------------------|-------------------|--------------------------|-------------------|
| Incentive bonus provision | 8 024 875 | 4 433 224 | - | 12 458 099 |
| Leave pay provision | 12 372 677 | 8 048 983 | (8 460 722) | 11 960 938 |
| | 20 397 552 | 12 482 207 | (8 460 722) | 24 419 038 |

Reconciliation of provisions - June 2015

| | Opening Balance | Additions | Utilised during the year | Total |
|---------------------------|-------------------|-------------------|--------------------------|-------------------|
| Incentive bonus provision | 7 904 288 | 4 231 071 | (4 110 484) | 8 024 875 |
| Leave pay provision | 10 915 820 | 6 861 560 | (5 404 704) | 12 372 676 |
| | 18 820 108 | 11 092 631 | (9 515 188) | 20 397 552 |

Incentive bonus provision

A provision for incentive bonuses is estimated at year end. The incentive bonus will be paid out if the Board of Directors are satisfied with ERWAT's performance. The amount will be determined by the Board and the date of payment will only be when the board approves the incentive bonuses.

Leave pay provision

The liability is based on the total accrued leave days at year end. The payment of the leave and the amount are uncertain as employees take their leave at different stages during the year.

11. Long term borrowings

At amortised cost

| | | |
|--|--------------------|--------------------|
| Bank loan - Nedbank (Secured) Six month Jibar plus 2.32% currently @ 2016: 9.362%(2015:8.99%) Redeemable 30/11/2029 | 552 553 867 | 317 377 884 |
| Bank loan - INCA (Unsecured) INCA @ 2016: 8.25% (2015:7%) Redeemable 28/06/2024 | 64 779 763 | 69 168 932 |
| Bank loans - DBSA (Unsecured) DBSA @ 2016:15% (2015:15%) Redeemable 30/09/2020 DBSA @ 2016: 10.12% (2015: 9.56%) Redeemable 30/09/2020 | 15 378 339 | 18 744 533 |
| Total long term borrowings | 632 711 969 | 405 291 349 |

Receivables with a carrying value of R76 536 084 (2015: R42 285 838) are encumbered in respect of a long-term borrowing, as disclosed in the Trade debtors from exchange and non-exchange transactions note 3. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd as guarantee for the loan remains in effect.

Non-current liabilities

| | | |
|-------------------|-------------|-------------|
| At amortised cost | 598 391 157 | 394 902 335 |
|-------------------|-------------|-------------|

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|---|----------------|-------------------|
| 11. Long term borrowings (continued) | | |
| Current liabilities | | |
| At amortised cost | 34 320 812 | 10 389 014 |
| 12. Financial lease obligation | | |
| Non-current liabilities | | |
| Finance lease obligation | 503 045 | 65 027 |
| Current liabilities | | |
| Finance lease obligation | 366 815 | 97 540 |
| Minimum lease payments due | | |
| - within one year - current portion of finance lease obligation | 366 815 | 97 540 |
| - in second to fifth year inclusive - non-current portion of finance lease obligation | 503 045 | 65 027 |
| Present value of minimum lease payments | 869 860 | 162 567 |

Finance Leases:

There are 2 Finance leases (Fidelity Security and Incity Security), relating to the rental of security equipment.

- 1) Incity Security - relates to the renting of alarm system equipment.
- 2) Fidelity Security - relates to the renting of access control system, electric fencing, and CCTV equipment.

It is entity policy to lease certain equipment under finance leases.

13. Employment benefit obligation

The amounts recognised in the statement of financial position are as follows:

| Carrying value | 2015/16 | 2014/15 | 2013/14 |
|--|-------------------|-------------------|-------------------|
| Opening balance | 27 978 000 | 22 240 000 | 16 087 801 |
| Benefits paid | (970 000) | (794 000) | (550 000) |
| Net expense recognised in the statement of financial performance | 2 396 000 | 6 532 000 | 6 702 199 |
| | 29 404 000 | 27 978 000 | 22 240 000 |

The obligation is due to a post-retirement medical aid benefit offered by ERWAT. In the event, when a medical aid contributing employee retires, ERWAT will continue to pay 66% of the medical aid contribution provided that the requirements of the policy are met by the employee.

Net expense recognised in the statement of financial performance

| | 2015/16 | 2014/15 | 2013/14 |
|----------------------------|--------------------|--------------------|--------------------|
| Current service cost | (974 000) | (766 000) | (1 309 000) |
| Interest cost | (2 494 000) | (2 091 000) | (1 901 000) |
| Actuarial gains / (losses) | 1 072 000 | (3 675 000) | (3 492 199) |
| | (2 396 000) | (6 532 000) | (6 702 199) |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

13. Employment benefit obligation (continued)

Key assumptions used

An actuarial valuation was performed by IAC independent actuaries and consultants at 30 June 2016 and 30 June 2015. Pricewaterhouse Coopers performed the actuarial valuation at 30 June 2014.

ERWAT can only supply 3 years of information as use was only made of actuaries for the last 3 years.

The key financial assumptions are as follows:

| | 2015/16 | 2014/15 | 2013/14 |
|--|----------|----------|----------|
| Discount rates used | 10,16% | 08,91% | 09,40% |
| Medical cost inflation rates | 09,58% | 08,42% | 09,00% |
| Proportion of retiring members who are married | 90,00% | 90,00% | 90,00% |
| Average retirement age | 63 years | 63 years | 63 years |
| Number of children under the age of 21 | 0 | 0 | 0 |

Other assumptions

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one (1%) percentage point change in assumed health care cost trends rates would have the following effects:

| | One percentage point decrease | One percentage point increase |
|----------------------------|--|--|
| Defined benefit obligation | (34 523 000) | (25 392 000) |
| Service costs | (1 389 000) | (857 000) |
| Interest cost | (3 164 000) | (2 835 000) |

Amounts for the current and previous three years are as follows:

| | 2016 R | 2015 R | 2014 R |
|--|------------|-------------|--------------|
| Defined benefit obligation | 29 404 000 | 27 978 000 | 22 240 000 |
| Surplus (deficit) | 1 072 000 | (3 675 000) | (3 492 199) |
| Experience adjustments on plan liabilities | 680 000 | (1 169 000) | (10 765 000) |

14. Revenue

| | | |
|--|--------------------|--------------------|
| Service charges | 575 532 723 | 525 600 660 |
| Development contribution | 40 228 486 | 16 968 083 |
| (Loss) / Gain on fair value adjustment | (33 120) | 425 927 |
| Other income | 109 848 612 | 70 986 025 |
| Interest received - investment | 13 048 316 | 4 536 216 |
| Dividends received | 149 705 | 91 137 |
| Government grants & subsidies | 50 000 000 | 50 000 000 |
| | 788 774 722 | 668 608 048 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|---|--------------------|--------------------|
| 14. Revenue (continued) | | |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 575 532 723 | 525 600 660 |
| (Loss) / Gain on fair value adjustment | (33 120) | 425 927 |
| Other income | 109 848 612 | 70 986 025 |
| Interest received - investment | 13 048 316 | 4 536 216 |
| Dividends received | 149 705 | 91 137 |
| | 698 546 236 | 601 639 965 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Transfer revenue | | |
| Government grants & subsidies | 50 000 000 | 50 000 000 |
| Development contribution | 40 228 486 | 16 968 083 |
| | 90 228 486 | 66 968 083 |
| 15. Service charges | | |
| Sewerage and sanitation charges | 575 532 723 | 525 600 660 |
| 16. Development Contribution | | |
| Development contribution received - controlling entity | 40 228 486 | 16 968 083 |
| Development contribution is income received from Ekurhuleni Municipality for the additional construction of sewer lines for new developments that results in the increase of flows to the ERWAT waste water plants. | | |
| 17. Other income | | |
| Discount received | 83 425 | 277 876 |
| Housing and leases | 178 682 | 274 947 |
| Income: Commercial business | 21 526 671 | 18 562 981 |
| Income: Laboratory | 12 383 563 | 12 574 191 |
| Income: Operations | 734 421 | 4 210 004 |
| Income: Technical | 74 457 483 | 34 489 076 |
| Insurance claims received | 184 785 | 278 684 |
| Learnership income | 126 906 | 196 763 |
| Sale of scrap | 27 800 | 25 253 |
| Tender Income | 134 751 | 96 250 |
| Bad debts recovered | 10 125 | - |
| | 109 848 612 | 70 986 025 |
| 18. Government grants & subsidies | | |
| Government grants - controlling entity | 50 000 000 | 50 000 000 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--------------------------------------|-------------------|-------------------|
| 19. General expenses | | |
| Advertising | 876 179 | 641 609 |
| Assessment rates & municipal charges | 2 880 920 | 2 466 950 |
| Auditors remuneration (Note 36) | 1 438 696 | 1 243 437 |
| Bank charges | 290 609 | 1 356 490 |
| Cleaning | 572 436 | 688 105 |
| Conferences and seminars | 813 218 | 836 632 |
| Computer expenses | 1 512 535 | 1 733 009 |
| Consulting and professional fees | 13 036 655 | 10 534 401 |
| Consumables | 836 724 | 530 627 |
| Donations | 986 210 | 901 085 |
| Entertainment | 1 744 635 | 1 093 412 |
| SARS Penalties (Note 42) | - | 39 860 |
| Flowers | 192 462 | 173 970 |
| Laboratory charges | 3 803 821 | 3 973 245 |
| Lease rental | 1 202 747 | 1 200 737 |
| Hiring of fleet | 10 209 069 | 8 783 876 |
| Health and safety expense | 3 228 364 | 2 809 489 |
| Marketing | 1 320 933 | 1 938 504 |
| Postage and courier | 2 439 | 16 970 |
| Printing and stationery | 1 060 697 | 646 859 |
| Rental of equipment | 675 727 | 620 081 |
| Research and development costs | 833 878 | 821 534 |
| Security | 8 936 271 | 8 894 028 |
| Sewerage and waste disposal | 33 221 | 50 117 |
| Stolen cash written off | - | 649 |
| Subscriptions and membership fees | 104 950 | 90 703 |
| Telephone and fax | 1 840 388 | 1 924 275 |
| Transport and freight | 2 515 539 | 2 874 760 |
| Training | 1 757 058 | 2 407 815 |
| Travel | 3 547 889 | 2 119 244 |
| | 66 254 270 | 61 412 473 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|---|--------------------|--------------------|
| 20. Employee related costs | | |
| Basic | 135 475 569 | 122 193 310 |
| Bonus | 10 156 070 | 9 103 276 |
| Bursary schemes | 669 834 | 570 512 |
| Car allowance | 5 183 598 | 5 126 094 |
| Cell phone and data card allowance | 429 510 | 410 800 |
| Company contributions | 39 382 715 | 35 585 851 |
| Housing benefits and allowances | 1 310 482 | 1 203 763 |
| Leave pay provision charge | 8 048 983 | 6 861 562 |
| Long-service awards | 130 939 | 195 196 |
| Long-term benefits - incentive scheme | 4 433 224 | 4 231 072 |
| Overtime payments | 18 996 831 | 16 695 117 |
| Other short term costs | 231 400 | 234 896 |
| Post - retirement medical (gain) / loss | (98 000) | 4 477 442 |
| Protective clothing | 1 062 834 | 793 213 |
| Recruitment | 1 754 960 | 1 804 283 |
| Remuneration of non-executive directors (Note 41) | 2 562 025 | 1 621 753 |
| Sanlam disability fund | 484 970 | 73 715 |
| Workmen's compensation | 2 093 664 | 1 071 280 |
| | 232 309 608 | 212 253 135 |
| Remuneration of the chief executive officer | | |
| Annual Remuneration | 1 534 357 | 1 171 511 |
| Car Allowance | 120 000 | 120 000 |
| Performance Bonuses | - | 177 274 |
| Contributions to UIF, Medical and Pension Funds | 100 361 | 291 991 |
| Telephone and data card allowance | 52 800 | 52 800 |
| Total | 1 807 518 | 1 813 576 |
| Remuneration of chief finance officer | | |
| Annual Remuneration | 1 035 472 | 953 378 |
| Car Allowance | 102 000 | 102 000 |
| Performance Bonuses | - | 131 558 |
| Contributions to UIF, Medical and Pension Funds | 274 777 | 265 673 |
| Telephone and data card allowance | 40 800 | 40 800 |
| Total | 1 453 049 | 1 493 409 |
| Remuneration of executive managers - excluding CFO | | |
| Annual Remuneration | 5 871 709 | 5 519 552 |
| Car Allowance | 382 000 | 465 600 |
| Performance Bonuses | - | 565 717 |
| Contributions to UIF, Medical and Pension Funds | 1 341 216 | 1 449 866 |
| Telephone and data card allowance | 222 300 | 244 800 |
| Total | 7 817 225 | 8 245 535 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--|--------------------|--------------------|
| 20. Employee related costs (continued) | | |
| Remuneration of non - executive directors | | |
| Annual Remuneration | 2 456 810 | 1 563 313 |
| Travel claims | 105 215 | 17 020 |
| Sub-total | 2 562 025 | 1 580 333 |
| Business travel subsistence allowance | - | 41 420 |
| Total | 2 562 025 | 1 621 753 |
| In-kind benefits | | |
| The following directors EE Themba, M Mochatsi, N Koni have use of company owned laptops. | | |
| 21. Debt impairment | | |
| Reversal of impairment allowance | (2 693 799) | (1 439 717) |
| Contributions to debt impairment allowance | 2 949 121 | 2 693 799 |
| Debts impaired written off against allowance | 37 799 | 248 388 |
| | 293 121 | 1 502 470 |
| 22. Depreciation and amortisation | | |
| Property, plant and equipment and Intangible assets | 54 734 236 | 32 175 377 |
| Intangible assets | 526 408 | 385 708 |
| | 55 260 644 | 32 561 085 |
| 23. Finance costs | | |
| Interest on long-term borrowings | 51 710 968 | 20 762 980 |
| Finance leases | 254 257 | 237 152 |
| SARS interest | - | 174 142 |
| Unwinding of discount - Interest | 2 494 000 | 2 091 000 |
| | 54 459 225 | 23 265 274 |
| 24. Bulk purchases | | |
| Electricity | 107 036 523 | 98 242 576 |
| Water | 2 685 200 | 2 513 355 |
| Sewerage purification | 49 043 512 | 42 529 062 |
| | 158 765 235 | 143 284 993 |
| 25. Auditors' remuneration | | |
| Fees | 1 438 696 | 1 243 437 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--|--------------------|-------------------|
| 26. Cash generated from operations | | |
| Surplus | 113 254 142 | 108 327 782 |
| Adjustments for: | | |
| Depreciation and amortisation | 55 260 644 | 32 561 084 |
| Loss on sale of assets | 3 920 820 | 4 538 498 |
| Finance costs - Finance leases | - | 237 152 |
| Debt impairment | 293 121 | 1 502 470 |
| Movements in retirement benefit liability | 1 426 000 | 5 738 000 |
| Movements in provisions | 4 021 486 | 1 577 444 |
| Fair value adjustments | 33 120 | (425 927) |
| Adjustments relating to prior years | - | 912 537 |
| Changes in working capital: | | |
| Other receivables from exchange transactions | (4 350 689) | (38 199 845) |
| Debt impairment | (293 121) | - |
| Other financial asset | (60 948) | (510 739) |
| Movement in other financial assets due to fair value adjustments | (33 120) | 425 927 |
| Payables from exchange transactions | 59 567 738 | (24 026 733) |
| VAT | (836 820) | (12 196 961) |
| | 232 202 373 | 80 460 689 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--|--------------------|--------------------|
| 27. Capital Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Buildings | 2 653 315 | 4 769 169 |
| • Computer equipment | 326 317 | 1 448 344 |
| • Furniture and fittings | 106 339 | 203 577 |
| • Implements and machinery | 1 746 065 | 5 070 526 |
| • Intangibles | 4 333 827 | 845 963 |
| • Motor vehicles | - | 9 225 |
| • Office equipment | - | 29 952 |
| • Waste water works | 144 657 335 | 93 687 512 |
| • Workshop tools | - | 747 466 |
| | 153 823 198 | 106 811 734 |
| Total capital commitments | | |
| Already contracted for but not provided for | 153 823 198 | 106 811 734 |

This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)

| | | |
|-------------------------------------|----------------|----------------|
| Minimum lease payments due | | |
| - within one year | 560 470 | 720 152 |
| - in second to fifth year inclusive | - | 120 960 |
| | 560 470 | 841 112 |

Operating lease payments represent rentals payable by the entity for office equipment. Rentals are fixed for an average of three years. No contingent rent is payable. Some lease periods have expired, even though these office equipment are still being used by the entity. The entity is obliged to give 90 days notice in the event that it decides to cancel these leases.

Finance leases

| | | |
|-------------------------------------|----------------|----------------|
| Minimum lease payments due | | |
| - within one year | 366 815 | 97 540 |
| - in second to fifth year inclusive | 503 045 | 65 027 |
| | 869 860 | 162 567 |

Finance Leases:

There are 2 Finance leases (Fidelity Security and Incity Security), relating to the rental of security equipment.

- 1) **Incity Security** - relates to the renting of alarm system equipment.
- 2) **Fidelity Security** - relates to the renting of access control system, electric fencing, and CCTV equipment.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015
Restated*

28. Contingencies

Contingencies are broken down into the following categories:

Category A - Bank Guarantees

Category B - Guarantees

Category C - Legal Matters

Category A - Bank Guarantees

| | | |
|-----------------------------|------------------|------------------|
| Eskom- 70920408242 | 954 600 | 954 600 |
| Eskom - 70920408830 | 950 000 | 950 000 |
| Stadsraad - Springs | 90 000 | 90 000 |
| Stadsraad - Midrand | 94 200 | 94 200 |
| Stadsraad - Kempton Park | 80 750 | 80 750 |
| Eskom - 32489934242 | 61 400 | 61 400 |
| Randwaterraad - 32489934243 | 15 750 | 15 750 |
| Eskom - 32489934244 | 33 300 | 33 300 |
| Eskom - 32489934245 | 46 500 | 46 500 |
| Eskom - 32489934207 | 69 000 | 69 000 |
| Town council of Benoni | 163 000 | 163 000 |
| Stradsraad - Brakpan | 22 000 | 22 000 |
| Stradsraad - Heidelberg | 87 100 | 87 100 |
| Eskom - 32489934248 | 109 800 | 109 800 |
| Stadsraad - Bokburg | 145 000 | 145 000 |
| | 2 922 400 | 2 922 400 |

Category B - Guarantees

| | | |
|----------------------------------|---------------|---------------|
| M.A. Sathekge - Standard Bank | 14 000 | 14 000 |
| D. Moshomane - Saambou Bank | 5 900 | 5 900 |
| WM & C Rossouw - Standard Bank | 9 000 | 9 000 |
| C.P. Mokgolobotho - Nedperm Bank | 3 800 | 3 800 |
| | 32 700 | 32 700 |

Category C - Legal Matters

| | | |
|----------------------------------|------------------|------------------|
| Madikezele & Nyati attorney (a)* | - | 506 730 |
| Total contingencies | 2 955 100 | 3 461 830 |

Notes:

*(a) Settlement has been reached between ERWAT and Madikezele & Nyati attorneys at 30 June 2016 for an amount of R250 000 which has been correctly accounted for.

Contingencies relating to ESKOM:

Included in work in progress there is an ESKOM contract that stipulate that if ESKOM over spends the quoted amount they will be entitled to recover the variance up to 15% of the initial quoted amount. ESKOM will refund ERWAT should the cost be less than the quoted value.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

29. Related parties

Relationships

Directors

Controlling entity and other members of group

Refer to general informations section

Ekurhuleni Metropolitan Municipality, Other members of the group: Brakpan Bus Company and Ekurhuleni Development Company, Pharoeh Park Housing Company, Germiston Housing Company, Lethabong Housing Institute.

Related party balances

Amounts included in payables from exchange transactions regarding related parties

| | | |
|--------------------------------------|------------|-----------|
| Ekurhuleni Metropolitan Municipality | 10 170 353 | 6 095 842 |
|--------------------------------------|------------|-----------|

Amounts included in Trade debtors from exchange transactions

| | | |
|--------------------------------------|------------|------------|
| Ekurhuleni Metropolitan Municipality | 37 873 133 | 19 836 454 |
|--------------------------------------|------------|------------|

Amounts included in Trade debtors from non-exchange transactions

| | | |
|--------------------------------------|------------|------------|
| Ekurhuleni Metropolitan Municipality | 31 475 052 | 16 758 000 |
|--------------------------------------|------------|------------|

Related party transactions

Prepayment received

| | | |
|--------------------------------------|-----------|-----------|
| Ekurhuleni Metropolitan Municipality | 3 000 000 | 3 000 000 |
|--------------------------------------|-----------|-----------|

Purchases from related parties

| | | |
|--------------------------------------|------------|------------|
| Ekurhuleni Metropolitan Municipality | 57 372 802 | 64 438 458 |
|--------------------------------------|------------|------------|

Sales to related parties

| | | |
|--------------------------------------|-------------|-------------|
| Ekurhuleni Metropolitan Municipality | 703 502 222 | 596 539 571 |
|--------------------------------------|-------------|-------------|

Grants and development contribution received

| | | |
|---|------------|------------|
| Ekurhuleni Metropolitan Municipality - Grants | 50 000 000 | 50 000 000 |
|---|------------|------------|

| | | |
|---|------------|------------|
| Ekurhuleni Metropolitan Municipality - Development contribution | 40 228 487 | 16 968 083 |
|---|------------|------------|

Guarantee and debtors ceded

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carrying value of R552 553 867 (2015: R317 377 884) as disclosed in the Long-term borrowing note 11. The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract.

ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd as guarantee for the loan remains in effect.

Remuneration - Directors, Senior Management

The remuneration of the non-executive directors, executive directors and senior managers are included the employee related costs note 20.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

29. Related parties (continued)

Leased Assets:

The following works included under Infrastructure, are leased assets from related parties (Ekurhuleni Metropolitan Municipality).

| Leased Assets | Cost | Accumulated Depreciation | Net book value |
|-----------------|------------------|--------------------------|------------------|
| Benoni | 437 677 | (397 529) | 40 148 |
| Dekema | 168 150 | (39 882) | 128 268 |
| Herbert Bickley | 87 719 | (25 118) | 62 601 |
| Rondebult | 2 000 530 | (651 966) | 1 348 564 |
| Rynfield | 654 554 | (110 526) | 544 028 |
| | 3 348 630 | (1 225 021) | 2 123 609 |

The liability is R10 per year per lease and the lease agreements' periods are indefinite until both parties decide to cancel the lease agreement. Assets, indirectly related to these works, with a carrying amounts of R2 123 609 (2015:restated R2 285 698, previously - R7 426 750) are included within the class Infrastructure: Waste water purification works in note 7.

30. Prior period errors

| Change | 2014/15 | Total |
|---|------------------|------------------|
| Payables from exchange transactions | (1 247 228) | (1 247 228) |
| General Expense - Audit fees | (9 000) | (9 000) |
| General Expense - Training expense | 9 000 | 9 000 |
| Property, plant and equipment | (7 611 578) | (7 611 578) |
| Finance lease obligation | (162 567) | (162 567) |
| Opening Accumulated Surplus | 4 240 187 | 4 240 187 |
| The sum of the items below affecting Performance | 4 781 187 | 4 781 187 |
| Loss on disposal of assets | 3 371 818 | 3 371 818 |
| General expenses | (334 692) | (334 692) |
| Employee related costs | 1 247 228 | 1 247 228 |
| Depreciation and amortisation | (100 014) | (100 014) |
| Repairs and maintenance | 359 693 | 359 693 |
| Finance costs | 237 153 | 237 153 |

Property, plant and equipment

| | |
|---------------------------|------------------|
| Repairs and Maintenance - | (359 693) |
| Unbundling of assets - | (7 414 451) |
| Finance Leased asset - | 162 567 |
| Net effect - | 7 611 578 |

Included in the net effect relating to Property, plant and equipment, R4 240 187 relates to the years prior to 2014/15. The error has been corrected in the opening accumulated surplus.

Repairs and Maintenance

The work in progress additions included an item which related to repairs and maintenance expense and was incorrectly recorded as an asset. The assets were decreased by (R359 693), and repairs and maintenance has been increased by R359 693 in 2014/15.

Unbundling of assets:

ERWAT has performed an unbundling of assets to sub-component level. During this process it was discovered that an amount of R10 928 470 (cost) had to be derecognised, the associated accumulated depreciation was R3 514 019 and with a resultant carrying value of (R7 414 451).

Due to the unbundling on the waste water works and the finance lease, the depreciation decreased by R100 014 and the disposals in the waste water works increased with R3 371 818

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015
Restated*

30. Prior period errors (continued)

Finance Leases

An amount of R162 567 relating to finance lease asset was in error captured to security expense, this has since been corrected.

Leased assets

Carrying value of leased assets in 2014/15 amounted to R7 426 750. However, after an unbundling process the carrying value was actually R2 285 698.

Work in progress

ERWAT had in error disclosed only the additions for work in progress and did not account for completed items transferred from work in progress which amounted to R23 889 365.

Payables from exchange transactions - Overtime accrual

During the prior financial period ERWAT had incorrectly not accrued for expense relating to overtime on salaries. The error has been corrected in the prior period with the net effect of R1 247 228 was adjusted to the retained earnings and accrual account.

General Expense

ERWAT had mis-allocated Training expense amounting to R9 000 to Audit fees. This has been corrected.

General Expense/ Finance lease obligation

A total amount of R334 692 in 2014/15 financial year was posted to security costs in error. An amount of R97 540 related to Finance lease obligation and R237 153 related to Finance lease interest cost. The error has been corrected to the correct accounts in the prior year.

A total amount of R111 564 in 2013/14 financial year was posted to security costs in error. An amount of R99 050 related to Finance lease obligation and R32 514 related to Finance lease interest cost. This was corrected in the opening balance of the accumulated surplus in the 2014/15 financial year.

Note 7: Property, plant and equipment and Note 8: Intangible assets

The amounts relating impairment loss have been moved to disposals.

Work in progress reconciliation in 2015 was incorrectly disclosed as the transferred items were included in the additions/capital expenditure. Previously additions - R199 406 663, currently additions - R222 936 334 and transferred to completed items - (R23 889 365).

Note 29: Related parties

The related parties note has been split to separately disclose receivables from exchange transactions and receivables from non-exchange transaction. Previously receivables from exchange transactions - R36 594 454, currently receivables from exchange transactions - R19 836 454 and receivables from non-exchange transaction - R16 758 000.

Development contribution received from related parties have not been disclosed previously. This has been updated to include the amount of R16 968 083.

Leased assets from related parties was previously not disclosed. This is now included in the related party note R2 285 698.

Note 39: Utilisation of Long-term liabilities reconciliation

An amount of R2 648 662 relating to interest accrued was previously included in capital, has now been corrected and included in interest accrued

Note 31: Risk management

Payables from exchange transactions included prepayments in error. Amount previously stated R54 577 104, corrected amount R52 791 243.

Note 35: Financial instruments disclosure

Other receivables from exchange transactions included prepayments amount in error. Previously stated R57 670 049, corrected amount R24 631 209.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015
Restated*

30. Prior period errors (continued)

Payables from exchange transactions included prepayments in error. Amount previously stated R54 577 104, corrected amount R52 791 243.

Interest expense did not include the amount relating to the financial lease interest. Previously stated R23 028 122, corrected amount R23 265 274.

Cash flow statement :

Cash flows from financing activities

ERWAT had disclosed the Movement in long-term liabilities - R301 137 978 in the prior period, this has now been changed to show Loans raised - R314 846 689 and Loans repaid - (R13 708 711) for a better presentation of the Financial Statements.

Cash flows from investing activities:

ERWAT did not take into account the finance lease assets in the prior year relating to purchase of plant, property and equipment. Previously: R309 245 826, Restated: R307 136 865.

31. Risk management

Capital

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

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

| At 30 June 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-------------------------------------|---------------------|--------------------------|--------------------------|--------------|
| Borrowings | 34 320 812 | 50 730 787 | 158 029 412 | 389 630 958 |
| Payables from exchange transactions | 111 555 249 | - | - | - |
| At 30 June 2015 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Borrowings | 10 389 014 | 29 570 909 | 157 038 955 | 208 292 471 |
| Payables from exchange transactions | 52 791 243 | - | - | - |

Interest rate risk

The entity's interest rate risk arises from long term-borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/deficit.

At year end, financial instruments exposed to interest rate risk are indicated in note 11. ERWAT's income and operating cash are substantially independent of changes in market rates.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

31. Risk management (continued)

Capital risk management

Credit Risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis.

Price risk

The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as other financial assets.

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 11, cash and cash equivalents disclosed in note 6.

Consistent with others in the industry, the entity monitors capital on basis of the gearing.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial assets exposed to credit risk at 30 June 2016 were as follows:

Financial assets exposed to credit risk at year end were as follows:

| | | |
|---|--------------------|--------------------|
| Trade debtors from exchange and non-exchange transactions | 76 536 084 | 42 285 838 |
| Deposits | 2 504 778 | 2 551 574 |
| Cash and cash equivalents | 305 353 331 | 87 264 592 |
| Listed shares | 8 513 935 | 8 452 987 |
| | 392 908 128 | 140 554 991 |

| | | |
|---------------------------------|----------------------|--------------------|
| Total borrowings | 2016 | 2015 |
| Other financial liabilities | (632 711 969) | (405 291 349) |
| Less: cash and cash equivalents | 305 353 331 | 87 264 592 |
| Net debt | (327 358 638) | (318 026 757) |
| Total Net assets | 1 341 111 800 | 1 227 857 658 |
| Total capital | 1 013 753 162 | 909 830 901 |

Debtors ceded

Trade debtors (note 3), with a carrying value of R76 536 084 (2015: R42 285 838) are encumbered in respect of long-term borrowing, as disclosed in the long term borrowing note 11. ERWAT has agreed to cede to its controlling entity claims against its book debtor, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd, in respect of the R550 million loan advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, in respect of the R550 million loan advanced by Nedbank Ltd, and the guarantees provided by Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd as guarantee for the loan remains in effect.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015
Restated*

31. Risk management (continued)

Market risk

Currency Risk

ERWAT only transacts in its functional currency (South African Rand) and its only involvement with foreign currencies relates to the situation where imported goods and services are procured.

In order to manage ERWAT's exposure related to the procurement of goods or services denominated in a foreign currency, the Rand value will be determined at the time of procurement, or where this not possible the Rand value will be determined as close as possible to the time of procurement.

32. Going concern

We draw attention to the fact that at 30 June 2016, the entity had an accumulated surplus of R1 341 111 800 and that the total assets exceed its liabilities by R1 341 111 800.

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.

The ability of the entity to continue as a going concern is dependent on the continued support of EKURHULENI METROPOLITAN MUNICIPALITY (parent municipality) by way of payment for service charges for the treatment of waste water and the provision of related engineering services. These are paid each year in terms of the service delivery agreement entered into between ERWAT and EKURHULENI METROPOLITAN MUNICIPALITY.

33. Irregular expenditure

| | | |
|--|--------------------|--------------------|
| Opening balance restated | 118 771 759 | 81 640 515 |
| Add: Irregular Expenditure - current year | 539 903 | 35 131 585 |
| Add: Expenditure incurred in the current year relating to a prior period | 39 390 685 | 1 999 659 |
| | 158 702 347 | 118 771 759 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|--|-------------------|-------------------|
| 33. Irregular expenditure (continued) | | |
| Incidents currently under investigation | | |
| Training scheduled by former HR official without following SCM procedures | 227 052 | - |
| Documents removed from the ERWAT premises by a former SCM official | 152 078 | - |
| Proper request for quotation procedures not followed due to oversight. | - | 1 059 283 |
| SCM regulation 12(3) on the aggregation of transaction for determination of the appropriate procurement process not fully adhered to. | - | 401 373 |
| SCM regulations on declaration interest for quotations below R200,000 not fully adhered to. | - | 2 466 724 |
| Irregular expenditure incurred due to administrative errors | 40 428 | - |
| Lawnmower Repairs Not Correctly Combined In Terms Of Mscm Reg 12(3) | 11 087 | - |
| Office Supplies Not Correctly Combind In Terms Of Mscm Reg 12(3) | 3 623 | - |
| Oligonucleotides Where Not Correctly Combind In Terms Of MSCM Reg 12(3) | 2 112 | - |
| Business Card Orders Were Not Correctly Combined In Terms Of Mscm Regulation 12(3) | 3 750 | - |
| Orders approved by a former SCM official in excess of his delegated authority | 75 037 | - |
| Less than three quotations obtain for transactions with a value less than R10 000 | 8 425 | - |
| Lowest quotation not selected for transactions with a value less than R10 000 | 16 311 | - |
| Request for condonement approved by the accounting officer. Request for condonement has been submitted to National Treasury. Currently awaiting approval. | | |
| Irregular expenditure arising from the 2014/15 financial period, incurred in the 2015/16 financial period. The irregular expenditure relates to the incorrect composition of the Bid Adjudication Committee at the meeting held on 3 February 2015 | 39 390 685 | - |
| The composition of the bid adjudication committee meetings held on 3 February | - | 30 611 704 |
| Irregular expenditure arising from the 2011/12 financial period, incurred in the 2012/13 and 2013/14 financial period. Relates to tenders were awarded without obtaining confirmation that the selected bidder's tax matters are in order. | - | 1 999 659 |
| Incidents in relation to ERWAT's internal SCM policy condoned by the Accounting Officer pending submission to the board of directors | | |
| Internal SCM procedures not fully adhered to | - | 592 501 |
| | 39 930 588 | 37 131 244 |

During the 2015/16 financial period no disciplinary action was taken against individuals. Three of the officials who are responsible for current year irregular expenditure resigned from their employment at ERWAT.

No instances of irregular expenditure arising from criminal conduct was identified and therefore no criminal cases were opened with the SAPS.

During the 2015/16 financial period MPAC hearings were held. No remedial actions were received from the committee.

In the 2011/12 financial year a transaction with a value of R36 724 366 was incorrectly disclosed as irregular expenditure. As the contractor withdrew from the project and no expenditure was incurred, the irregular expenditure should not have been disclosed.

As the error occurred before the earliest prior period presented, GRAP 3.44(b) requires restatement of opening balances of assets, liabilities and net assets for the earliest prior period presented. It is however impracticable to disclose the 2012/13 comparative figures to effect the correction, as the only figure affected is the balance itself which is also contained in 2013/14 comparative figures.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

34. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same Gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided the reasons for any deviations are recorder and reported to the next meeting of the board of directors and includes a note to the annual financial statements.

The details of the deviations disclosed were documented and reported to the board of directors.

The deviations incurred, as listed hereunder, have been approved

| | | |
|------------------|-------------------|-------------------|
| Emergencies | 163 723 | 9 791 620 |
| Sole suppliers | 565 181 | 6 028 864 |
| Impracticability | 13 570 923 | 16 238 062 |
| | 14 299 827 | 32 058 546 |

35. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

| | At fair value | At amortised cost | Total |
|--|------------------|--------------------|--------------------|
| Other financial assets | 8 513 935 | - | 8 513 935 |
| Trade debtors | - | 76 536 084 | 76 536 084 |
| Other receivables from exchange transactions | - | 25 423 255 | 25 423 255 |
| Cash and cash equivalents | - | 305 353 331 | 305 353 331 |
| | 8 513 935 | 407 312 670 | 415 826 605 |

Financial liabilities

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Payables from exchange transactions | 111 555 249 | 111 555 249 |
| Long-term borrowing - Current | 34 320 812 | 34 320 812 |
| Long-term borrowing - Non current | 598 391 157 | 598 391 157 |
| Finance lease obligation - Current | 366 815 | 366 815 |
| Finance lease obligation - Non current | 503 045 | 503 045 |
| | 745 137 078 | 745 137 078 |

2015

Financial assets

| | At fair value | At amortised cost | Total |
|---|------------------|--------------------|--------------------|
| Other financial assets | 8 452 987 | - | 8 452 987 |
| Trade debtors from exchange and non-exchange transactions | - | 42 285 838 | 42 285 838 |
| Other receivables from exchange transactions | - | 24 631 209 | 24 631 209 |
| Cash and cash equivalents | - | 87 264 592 | 87 264 592 |
| | 8 452 987 | 154 181 639 | 162 634 626 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

35. Financial instruments disclosure (continued)

Financial liabilities

| | At amortised cost | Total |
|--|----------------------|--------------------|
| Payables from exchange transaction | 52 791 243 | 52 791 243 |
| Long-term borrowing - Current | 10 389 014 | 10 389 014 |
| Long-term borrowing - Non current | 394 902 335 | 394 902 335 |
| Finance lease obligation - Current | 97 540 | 97 540 |
| Finance lease obligation - Non current | 65 027 | 65 027 |
| | 458 245 159 | 458 245 159 |

Financial instruments in Statement of financial performance

2016

| | At amortised cost | Total |
|---|----------------------|---------------------|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 13 048 316 | 13 048 316 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (51 965 225) | (51 965 225) |
| Debt impairment | (293 121) | (293 121) |
| Loss on fair value adjustment - investment | (33 120) | (33 120) |
| | (39 243 150) | (39 243 150) |

2015

| | At amortised cost | Total |
|---|----------------------|---------------------|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 4 536 216 | 4 536 216 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (21 174 274) | (21 174 274) |
| Penalties on late payment of UIF,PAYE,SDL | (39 860) | (39 860) |
| Debt impairment | (1 502 470) | (1 502 470) |
| Gain on fair value adjustment - Investments | 425 927 | 425 927 |
| | (17 754 461) | (17 754 461) |

36. Additional disclosure in terms of Municipal Finance Management Act

Tender awarded to close family member in service of the state

| Contract number | Supplier Name | Close family member in service of the state | Relation | Organ of state | Amount |
|--------------------|------------------------------|--|----------|--|-------------------|
| ERW201509/TNDR-005 | Key Spirit Trading 218 cc | B Phala | Spouse | Construction Industry Development Board | 11 152 891 |
| | | | | | 11 152 891 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|---|-----------------|-------------------|
| 36. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Audit fees | | |
| Opening balance | 210 000 | 556 548 |
| Current year subscription / fee | 1 438 696 | 1 243 437 |
| Amount paid - current year | (1 641 031) | (1 589 985) |
| | 7 665 | 210 000 |
| PAYE and UIF | | |
| Opening balance | (7 770) | 2 122 885 |
| Current year subscription / fee | 34 002 316 | 30 207 885 |
| Amount paid - current year | (33 973 556) | (32 338 540) |
| | 20 990 | (7 770) |
| Pension and Medical Aid Deductions | | |
| Opening balance | 5 565 | 10 573 |
| Current year subscription / fee | 52 750 472 | 47 494 830 |
| Amount paid - current year | (52 779 034) | (47 499 838) |
| | (22 997) | 5 565 |
| VAT | | |
| VAT receivable | 22 895 482 | 22 058 662 |

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

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|-----------------|------|-------------------|
|-----------------|------|-------------------|

37. Budget differences

Material differences between budget and actual amounts

Total Revenue - 105% achieved due to the following reasons:

Investment Revenue - 280% achieved

Interest received - Due to under spending on capital items ERWAT had a higher bank balance, which resulted in higher interest.

Dividends received - ERWAT had received 24% higher than budgeted amount for dividends, as the budgeted amount is only an estimate which can change.

Other own revenue - 120% achieved

Development contribution - An amount of R40 228 486 relating to development contribution was received to which ERWAT could not budget as there is no information to calculate a budget.

Total operating Expense - 96% achieved due to the following reasons:

Depreciation and Amortisation - 167% achieved due to

ERWAT has performed an unbundling of assets which entailed a decrease of useful lives of assets which in turn increased the depreciation significantly.

Finance Costs - 114% achieved due to

The budgeted amount was based on prime interest at the date of the preparation of the budget, however due to an increase in the interest rate the finance cost increased over what had been budgeted.

Materials and bulk purchases - 86% achieved due to

ERWAT has contracted with suppliers which allowed for negotiation of discounted prices, resulting in a saving on bulk purchases.

Capital Expenditure - 61% achieved

A project that was budgeted for Integrated Sludge Beneficiation Plant could not be spent during the year due to the awarded supplier not meeting the CIDB requirements which in turn delayed the execution of the project hence the R100 million was not spent.

Further under spending was due to contractors that failed to execute projects and withdrew from the contract before any expenditure was incurred. These projects will be re-advertised in the next financial year. There were delays in delivery of equipment from suppliers, which also resulted in under spending.

Net cash at the end of the year

The cashflow balance is higher than budgeted due to under spending on capital items that was planned during the year and did not take place, and the saving on operating expenditures.

38. Events after the reporting date

There were no events after the reporting date.

39. Utilisation of Long-term liabilities reconciliation

| | | |
|--|------------------|------------------|
| Outstanding long-term liabilities at the beginning of the year | 405 291 348 | 104 153 373 |
| Redemption of loans | (7 740 350) | (16 357 376) |
| Additional loan | 233 059 731 | 314 846 689 |
| Interest accrued | 2 101 241 | 2 648 662 |
| | 632 711 970 | 405 291 348 |
| Used to finance property, plant and equipment | (627 962 066) | (402 642 686) |
| | 4 749 904 | 2 648 662 |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

39. Utilisation of Long-term liabilities reconciliation (continued)

Outstanding long-term liabilities

| | | |
|---------------------------|--------------------|--------------------|
| Opening balance | 405 291 349 | 104 153 373 |
| Capital | 225 319 380 | 298 489 313 |
| Year end interest accrual | 2 101 241 | 2 648 662 |
| | 632 711 970 | 405 291 348 |

40. Comparative figures

Certain comparative figures have been reclassified to enhance presentation and/or where consequential amendments, due to other standards becoming effective, was required.

Note 4: Other receivables from exchange transactions - Medical Aid was previously mapped with prepayments and currently it is disclosed separately.

Note 3: Trade debtors has been split to disclose trade debtors from exchange transactions and trade debtors from non-exchange transactions separately.

Note 7: Property, plant and equipment - Prior year there was an error, as Esther Park leased asset should have been stated as Herbert Bickley leased assets, the value was correct, only the name was incorrect.

Note 16: Development contribution - ERWAT did not have a note relating to Development contribution in the prior year, however in the current year ERWAT has included a note for Development contribution for better presentation and understanding to the user.

Note 13 Employee benefit obligation: Additional information relating to surplus/(deficit) and experience adjustments on plan liabilities were including in the current year relating to priors years.

Statement of Financial Performance: Revenue relating to interest received was previously named "Interest received - Investment", which has now been changed to "Interest received".

The effects of the reclassification are as follows:

Previously stated:

Notes 3 Trade debtors

| | | |
|--------------------------------|---|------------|
| Trade debtors - Gross balances | - | 44 979 637 |
| Net balance | - | 42 285 838 |

Note 4 Other receivables from exchange transactions

| | | |
|-------------|---|------------|
| Prepayments | - | 33 052 043 |
|-------------|---|------------|

Note 7 Property, plant and equipment

| | | |
|-----------------|---|-------------|
| Impairment loss | - | (1 046 936) |
| Disposals | - | (168 301) |

Note 8 Intangible assets

| | | |
|-----------------|---|----------|
| Impairment loss | - | (25 288) |
| Disposals | - | - |

Note 36 Additional disclosure - Audit fees

| | | |
|---------------------------------|---|-------------|
| Opening balance | - | 556 796 |
| Current year subscription / fee | - | 1 252 437 |
| Amount paid - current year | - | (1 590 233) |
| Total | - | 219 000 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 Restated* |
|---|------|-------------------|
| 40. Comparative figures (continued) | | |
| Currently stated : | | |
| Notes 3 Trade debtors | - | - |
| Receivables from exchange transactions | - | 28 221 637 |
| Receivables from non-exchange transactions | - | 16 758 000 |
| Total net receivables from exchange and non-exchange transactions | - | 42 285 838 |
| Note 4 Other receivables from exchange transactions | - | - |
| Prepayments | - | 33 038 840 |
| Medical Aid | - | 13 203 |
| Note 7 Property, plant and equipment | - | - |
| Impairment loss | - | - |
| Disposals | - | (1 215 237) |
| Note 8 Intangible assets | - | - |
| Impairment loss | - | - |
| Disposals | - | (25 288) |
| Note 36 Additional disclosure - Audit fees | - | - |
| Opening balance | - | 556 548 |
| Current year subscription / fee | - | 1 243 437 |
| Amount paid - current year | - | (1 589 985) |
| Total | - | 210 000 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

41. Member and executive managers emoluments

| | Salary or Fee | Medical Contributions | Travel allowance/claim | Telephone and data card | Retirement fund contribution | Total package 2016 | Total package 2015 |
|---|------------------|-----------------------|------------------------|-------------------------|------------------------------|--------------------|--------------------|
| Non-Executive Members | | | | | | | |
| EM Phasha (Deceased - October 2015) | 71 279 | - | 509 | - | - | 71 788 | 267 991 |
| MM Mochatsi | 285 115 | - | 68 356 | - | - | 353 471 | 271 047 |
| N Koni - (previously - N Sidondi) | 285 115 | - | 3 843 | - | - | 288 958 | 269 797 |
| J Mojabelo - (Chairperson - appointed May 2015) | 389 726 | - | 1 389 | - | - | 391 115 | 60 705 |
| K Wall (appointed 01 May 2015) | 285 115 | - | 4 121 | - | - | 289 236 | 44 411 |
| L Bokaba (appointed 01 May 2015) | 285 115 | - | 6 093 | - | - | 291 208 | 44 411 |
| D Coovadia (appointed 01 May 2015) | 285 115 | - | 5 176 | - | - | 290 291 | 44 411 |
| EE Themba | 285 115 | - | 7 394 | - | - | 292 509 | 354 603 |
| CJ Cornish (appointed 01 June 2016) | 285 115 | - | 8 334 | - | - | 293 449 | 222 960 |
| Subtotal | 2 456 810 | - | 105 215 | - | - | 2 562 025 | 1 580 336 |
| Subsistence Allowance Total | | | | | | - | 41 420 |
| | | | | | | 2 562 025 | 1 621 756 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

41. Member and executive managers emoluments (continued)

| | Salary or Fee | Medical Contributions | Travel allowance/claim | Telephone and data card | Retirement fund contribution | Total package 2016 | Total package 2015 |
|---|------------------|-----------------------|------------------------|-------------------------|------------------------------|--------------------|--------------------|
| Chief executive officer | | | | | | | |
| NP Twala | 1 534 357 | 80 872 | 120 000 | 52 800 | 19 489 | 1 807 518 | 1 813 576 |
| Subtotal | 1 534 357 | 80 872 | 120 000 | 52 800 | 19 489 | 1 807 518 | 1 813 576 |
| Subsistence Allowance | | | | | | | |
| Total | | | | | | 1 807 518 | 1 813 576 |
| Executive Managers | | | | | | | |
| W Louw - Finance (H.O.D) | 1 035 472 | 64 666 | 102 000 | 40 800 | 210 111 | 1 453 049 | 1 493 409 |
| TS Mhlongo - Technical (H.O.D) - Resigned | 288 916 | - | 24 000 | 10 200 | 50 849 | 373 965 | 1 471 281 |
| F Raseruthe - Technical (Acting H.O.D) | 783 567 | 36 414 | - | 18 000 | 46 780 | 884 761 | - |
| FM Mabunda - Operations (H.O.D) | 941 659 | 79 889 | 144 000 | 40 800 | 191 096 | 1 397 444 | 1 375 376 |
| M Tsotetsi - Commercial Business (H.O.D) | 931 652 | 80 872 | 48 000 | 40 800 | 189 051 | 1 290 375 | 1 270 436 |
| RW Barnes - H.R (H.O.D) | 1 041 947 | 62 100 | 78 000 | 40 800 | 211 459 | 1 434 306 | 1 466 809 |
| JW Wilken - Development (H.O.D) | 1 005 593 | 51 308 | 58 000 | 34 000 | 89 079 | 1 237 980 | 1 477 786 |
| A Chapman - Lab (H.O.D) | 875 275 | 74 716 | 30 000 | 40 800 | 177 603 | 1 198 394 | 1 183 848 |
| Subtotal | 6 904 081 | 449 965 | 484 000 | 266 200 | 1 166 028 | 9 270 274 | 9 738 945 |

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016
2015
Restated*

42. Fruitless and wasteful expenditure

The expenditure, as listed hereunder, have not been approved/condoned

| | 2016 | 2015 Restated* |
|---|----------------|-------------------|
| Opening balance | 562 178 | - |
| SARS Penalties - PAYE, SDL and UIF | - | 39 860 |
| SARS Interest on late payment of PAYE,SDL and UIF | - | 174 142 |
| Incentive bonus exceeds approved pay out | - | 209 800 |
| Excess paid - sick leave taken | - | 138 376 |
| Closing balance | 562 178 | 562 178 |

SARS Penalties and interest

2014/15

Due to a system error on ERWAT's payroll package, SDL and UIF was under paid to SARS, which resulted in penalties and interest due to late payment to SARS. PAYE was not paid over on two project contractors as they invoiced ERWAT and was not included on the payroll. The PAYE was claimed back from the contractors. However, one contractor's portion had to be written off as we cannot get hold of him.

ERWAT has since rectified the payroll system and verified calculations to ensure this error is not repeated. All contractors are loaded on the payroll in order for ERWAT to pay PAYE on their salaries. No disciplinary action needs to be taken.

Incentive bonus exceeds approved pay out

The Board approved a lump sum bonus pay out, however the employee list used to apportion the amount did not include all employees entitled to an incentive bonus which resulted in a higher pay out. ERWAT will ensure that the list submitted for bonus are correct. No disciplinary action needs to be taken.

Excess sick leave paid

ERWAT has implemented an income protection benefit which will assist employees on long term ill health to continue receiving an income. ERWAT would not be able to recover the excess sick leave pay from the employee's leave days as well as the income protection benefit as the employee deceased. Management has decided that no disciplinary action needs to be taken.

43. Change in estimate

Property, plant and equipment and Intangible assets

There was a change in useful lives review which had the following impact:

Property, plant and equipment

| | |
|---|-------------|
| Depreciation expense before remaining useful lives review | R19 325 539 |
| Depreciation expense after remaining useful lives review | R34 933 034 |
| Future increase in depreciation due to review | R15 607 495 |

Intangible assets

| | |
|---|----------|
| Amortisation expense before remaining useful lives review | R7 101 |
| Amortisation expense after remaining useful lives review | R5 326 |
| Future increase in Amortisation due to review | (R1 775) |

