Johannesburg Water (SOC) Limited
Audited Annual Financial Statements
for the year ended 30 June 2017

The preparation of these Annual Financial Statements were supervised by:
B. Shongwe (Financial Director)

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
Directors	KPM Simelane (Chairperson) CB Shongwe (Financial Director) B Furstenburg SN Khondlo JJH Mateya MP Matji K Mdutshane G Moloi R Mudliar S Tshivhunge
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Controlling entity	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General of South Africa
Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie and Robertson

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

Directors' Responsibilities 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 their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practices (GRAP) and in accordance with directives issued by the National Treasury. The Auditor-General of South Africa is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 71 of 2008 and directives issued by the National Treasury.

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

The company relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

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

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

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

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

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

The directors have reviewed the company's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow.

Directors' Responsibilities and Approval

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

The annual financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the Board on 30 November 2017 and were signed on their behalf by:

G Simelane (Chairperson of the Board)

N Mukwevho (Managing Director)

Directors' Report

The directors submit their report for the year ended 30 June 2017.

1. INCORPORATION

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

2. REVIEW OF ACTIVITIES

Main business and operations

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

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

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

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

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

Net Surplus of the company was R291,3 million (2016: R782,5 million). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962 as amended. There is consequently no taxation effect.

3. GOING CONCERN

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

4. DIRECTORS' INTEREST IN CONTRACTS

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

5. ACCOUNTING POLICIES

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

Directors' Report

6. CONTRIBUTION FROM SHAREHOLDER

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

According to the company's register at 30 June 2017, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. BORROWING LIMITATIONS

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

8. NON-CURRENT ASSETS

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

9. DISTRIBUTIONS TO SHAREHOLDER

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

10. DIRECTORS

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

Name	Nationality	
KPM Simelane (Chairperson)	South African	
LT Dhlamini (Managing Director)	South African	Resigned 01 May 2017
CB Shongwe (Financial Director)	South African	
B Furstenburg	South African	Appointed 16 March 2017
ZD Hlatshwayo	South African	Resigned 16 August 2016
SN Khondlo	South African	
JJH Mateya	South African	
MP Matji	South African	
K Mdutshane	South African	
G Moloi	South African	
C Motau	South African	Retired 16 March 2017
NJ Motlabane	South African	Retired 16 March 2017
R Mudliar	South African	Appointed 16 March 2017
S Tshivhunge	South African	Appointed 16 March 2017

11. SECRETARY

The secretary of the company is G J Luden.

12. CORPORATE GOVERNANCE

12.1 General

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

The company confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2009, and the Companies Act of South Africa, Act 71 of 2008. The board of directors discuss the responsibilities of management in this respect, at board meetings and monitors the company's compliance with the code on a quarterly basis.

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

12.2 Board of directors

The board:

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

12.3 Chairperson and Managing Director

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

Directors' Report

12.4 Executive meetings

The directors have met on 10 separate occasions during the financial year. The directors are scheduled to meet at least 4 times per annum.

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

Name	Board Meetings	Audit committee meeting	Human resources and remuneration committee meeting	Service delivery and oversight procurement committee meeting	Risk and Information Technology committee meeting	Social and ethics committee	Nominations Committee	Total meetings
Total number of meetings held	10	9	6	4	4	3	10	46
KPM Simelane (Chairperson)	10	-	4	-	-	3	2	19
LT Dhlamini (Managing Director)	3	1	1	-	1	-	8	14
CB Shongwe (Financial Director)	7	8	5	3	2	3	-	28
B Furstenburg	3	-	1	-	-	1	-	5
ZD Hlatshwayo	2	-	-	1	-	-	-	3
SN Khondlo	6	-	-	2	-	-	-	8
JJH Mateya	9	-	5	-	4	-	8	26
MP Matji	8	4	-	-	-	-	-	12
K Mdutshane	10	8	-	-	4	-	7	29
G Moloi	5	-	-	4	2	-	-	11
C Motau	6	-	-	3	3	2	4	18
NJ Motlabane	7	-	5	-	-	2	-	14
R Mudliar	3	-	-	-	1	1	-	5
S Tshivhunge	3	-	1	1	-	-	-	5

12.5 Audit committee

The chairperson of the audit committee is K Mdutshane who is a non-executive director. The other member of the board, who forms part of the audit committee, is MP Matji. The committee met 9 times during the financial year to review matters necessary to fulfill its role.

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

The independent members of the audit committee are:

R Buys	- attended 9 meetings
V Mokwena	- attended 8 meetings
Z Samsam	- attended 6 meetings

12.6 Internal audit

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

Directors' Report

13. SHAREHOLDER

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

14. SPECIAL RESOLUTIONS

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

15. BANKERS

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

16. AUDITORS

The Auditor-General of South Africa will continue in office in accordance with the Public Audit Act, Act 25 of 2004, section 92 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 and section 90 of the Companies Act of South Africa, Act 71 of 2008.

Certificate by Company Secretary for the year ended 30 June 2017

In terms of section 88(2) (e) of the Companies Act 71 of 2008 and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged and/or filed, for the year ended 30 June 2017, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

G J Luden

Johannesburg Water (SOC) Limited
Company Secretary

Johannesburg
30 November 2017

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2017

Audit committee responsibility

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

Assessment of the finance function

The Audit Committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The committee will continue exercising oversight responsibility over the preparation of financial statements to prevent material misstatements. The committee considered the expertise, resources and experience of the finance function and concluded that these were appropriate, and that the functioning can be improved.

The effectiveness of internal controls

The Audit Committee evaluated the internal control environment, and based on the information, reports and explanations provided by management, internal audit department and the Auditor-General South Africa, assessed the internal controls as adequate and ineffective to mitigate the related risks to an acceptable level. The internal controls were ineffective due to the slow implementation of action plans by management. The committee will pay particular focus on this area and will continue to monitor the progress on the implementation of action plans on a regular basis.

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

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

The effectiveness of the internal audit department

The Internal Audit department executed and completed 110% audit projects (including ad hoc projects) against the 2016/2017 financial year approved annual internal audit plan. The plan was properly aligned to the risk register. The committee is satisfied with the effectiveness of the internal audit function during the year and accepts that the internal audit activity has to a large extent addressed the significant risks pertinent to Johannesburg Water.

The internal audit function was subjected to an independent quality assurance review in the 2014/2015 financial year and was found to be partially compliant. The committee monitors progress on the gaps identified on a quarterly basis through the quality assurance and improvement plan. The resolution rate of the gaps identified was at 82% (27 out of 33) and 18% (6) outstanding are in progress as at end of 2016/2017 financial year.

Performance reporting

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

Report of the Audit Committee

Governance

Risk management

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

Legal compliance

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

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

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

External Auditors

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

Matters raised by the Auditor-General

The four financial years (2013 – 2016) had 92 findings in total and, as at 2015/2016 there were 31 findings outstanding.

Of the 31 findings outstanding, 11 (35%) were resolved, 13 (42%) were in the process of being resolved and 7 (23%) could not be tested for assurance due to lack of transactions to test within the 2016/2017 financial year.

The Audit Committee continues to monitor progress on the implementation of action plans to resolve the Auditor-General South Africa’s findings raised in previous years.

The committee has noted the findings raised by the Auditor-General South Africa in 2016/17 and commits to continue holding the accounting officer and senior management accountable for the implementation of action plans, with more emphasis on recurring findings.

Appreciation

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

K Mdutshane

Johannesburg Water (SOC) Limited
Chairperson of the Audit Committee

Johannesburg
30 November 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand thousand	Note(s)	2017	2016 Restated
ASSETS			
Current Assets			
Inventories	5	86,329	67,159
Trade receivables with group companies	6	12	10
Loans to shareholder	7	388,551	588,272
Other receivables	10	44,309	14,912
Consumer debtors: Exchange transactions	11	2,064,003	1,740,261
Cash and cash equivalents	13	31	29
Total Current Assets		**2,583,235**	**2,410,643**
Non-Current Assets			
Property, plant and equipment	3	9,997,529	9,493,362
Intangible assets	4	63,191	69,621
Total Non-Current Assets		**10,060,720**	**9,562,983**
Total Assets		**12,643,955**	**11,973,626**
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	8,090	9,883
Loans from shareholder	7	2,038,158	1,763,921
Finance lease obligation: Shareholder	8	4,564	4,531
Finance lease obligation: Other	9	848	1,546
Trade and other payables from exchange transactions	17	1,800,228	1,497,843
Provisions	18	18,823	15,727
Total Current Liabilities		**3,870,711**	**3,293,451**
Non-Current Liabilities			
Loans from shareholder	7	2,657,976	2,841,662
Finance lease obligation: Shareholder	8	12,350	16,780
Finance lease obligation: Other	9	112	960
Retirement benefit obligation	15	80,134	89,437
Total Non-Current Liabilities		**2,750,572**	**2,948,839**
Total Liabilities		**6,621,283**	**6,242,290**
Net Assets		**6,022,672**	**5,731,336**
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		6,022,671	5,731,335
Total Net Assets		**6,022,672**	**5,731,336**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2017	2016 Restated
Revenue from exchange transactions	20	8,593,582	7,850,661
Cost of sales		(4,259,064)	(3,849,698)
Gross surplus		**4,334,518**	**4,000,963**
Other income	21	348,073	404,437
Revenue from non-exchange transactions	22	70,511	249,897
Operating expenses	24	(4,275,978)	(3,646,863)
Operating surplus		**477,124**	**1,008,434**
Interest revenue	29	141,370	119,995
Finance costs	30	(327,158)	(345,912)
Surplus for the year		**291,336**	**782,517**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 1 July 2015 as previously reported		1	4,984,519	4,984,520
Prior year adjustments	37		(35,701)	(35,701)
Balance at 01 July 2015 restated		**1**	**4,948,818**	**4,948,819**
Surplus for the year restated			782,517	782,517
Balance at 01 July 2016 restated		**1**	**5,731,335**	**5,731,336**
Surplus for the year			291,336	291,336
Balance at 30 June 2017		**1**	**6,022,671**	**6,022,672**
Note		14		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2017	2016 Restated
Cash flows from operating activities			
Receipts			
Cash receipts from customers		7,792,693	7,519,856
Interest revenue	29	141,370	119,995
		7,934,063	7,639,851
Payments			
Cash paid to suppliers and employees		(7,267,482)	(6,783,448)
Finance costs	30	(327,158)	(345,912)
		(7,594,640)	(7,129,360)
Net cash flows from operating activities	32	**339,423**	**510,491**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(614,971)	(809,783)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4	263	1
Purchase of intangible assets	4	(9,042)	(15,794)
Net cash flows from investing activities		**(623,750)**	**(825,576)**
Cash flows from financing activities			
Cash movement in loans with shareholder		290,272	303,862
Cash movement in Finance lease obligation: shareholder		(4,397)	11,511
Cash movement in Finance lease obligation: other		(1,546)	(289)
Net cash flows from financing activities		**284,329**	**315,084**
Net (decrease)/increase in cash and cash equivalents		**2**	**(1)**
Cash and cash equivalents at the beginning of the year		29	30
Cash and cash equivalents at the end of the year	13	**31**	**29**

Johannesburg Water (SOC) Limited
(Registration number 2000/029271/07)
Audited Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Performance

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Revenue						
Service charges	9,211,044	(350,134)	**8,860,910**	8,593,582	**(267,328)**	1
Other income	-	3,258	**3,258**	348,073	**344,815**	2
Revenue from non-exhange transactions	76,950	-	**76,950**	70,511	**(6,439)**	
Total revenue	**9,287,994**	**(346,876)**	**8,941,118**	**9,012,166**	**71,048**	
Cost of sales						
Bulk Purchases - Water	(4,178,880)	116,933	**(4,061,947)**	(4,259,064)	**(197,117)**	3
Gross margin	**5,109,114**	**(229,943)**	**4,879,171**	**4,753,102**	**(126,069)**	
Expenditure						
Employee related costs	(926,043)	(998)	**(927,041)**	(933,878)	**(6,837)**	4
Contracted services	(702,805)	(11,678)	**(714,483)**	(621,727)	**92,756**	5
Consultants fees	(18,150)	388	**(17,762)**	(6,259)	**11,503**	6
General expenditure - other	(639,129)	-	**(639,129)**	(522,910)	**116,219**	7
Depreciation	(211,276)	(66,092)	**(277,368)**	(286,177)	**(8,809)**	8
Provision for bad debts	(1,535,960)	-	**(1,535,960)**	(1,905,027)	**(369,067)**	9
Total expenditure	**(4,033,363)**	**(78,380)**	**(4,111,743)**	**(4,275,978)**	**(164,235)**	
Surplus before interest	**1,075,751**	**(308,323)**	**767,428**	**477,124**	**(290,304)**	
Interest income	97,790	8,431	**106,221**	141,370	**35,149**	10
Interest expense	(400,052)	72,089	**(327,963)**	(327,158)	**805**	
	(302,262)	**80,520**	**(221,742)**	**(185,788)**	**35,954**	
Surplus for the year	**773,489**	**(227,804)**	**545,685**	**291,336**	**(254,348)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

1. The adverse variance in service charges of 3.02% is as a result of less water being sold, due to the fact that JW declared level 2 water restrictions requesting residents to save water during the year. Customers continued to save water after the restrictions were lifted which was not anticipated in the budget hence the adverse variance. The uplifting of water restriction meant that the tariff could no longer be charged hence the adverse variance.

2. The favourable variance of 421.87% on other income is attributable to the recognition of developers funded assets during the year.

3. Bulk purchases is over the budget by 4.85%. This is as a result of the budget that was reduced to cater for 15% water restrictions during the year. The budget assumption was that the restrictions would have been in place for the entire year but only lasted for six months resulting in the adverse variance. The demand initiatives only yielded a saving of 10% on average and not the 15% targeted as included in the budget which contributed to the adverse variance.

4. The over expenditure of 0.74% on employee related cost is as a result of excessive overtime worked by by teams opening and closing valves during water restrictions and for the teams that worked to reduce the backlog in meter maintenance.

5. The under expenditure of 12.98% on contracted services is mainly attributable to cost savings on Contractor Specialists Services which is requested on and as when basis.

6. The services of consultants are underspent by 64.76% and this is ordinarily required only on an as and when basis.

7. A concerted effort was made by the company to save on general expenditure when it was evident that revenue will not materialise at budgeted levels due to the drought and water restrictions. A savings of 18.18% was achieved.

8. Depreciation exceeds budget by 3.18% as a result of more meters being capitialised than projected.

9. The contribution towards the bad debt is over budget by 24.03% year to date, as a result of poor payment levels and a change in Revenue Shared Services Centre payment allocation method whereby payments are now allocated to the newest invoices issued which then increased the provision for old debts.

10. The variance of 33.09% on interest charges on outstanding debtors is attributable to the lower payment levels of customers which attracted higher interest charges.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Statement of Financial Position as at 30 June 2017

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Assets						
Current Assets						
Inventories	77,074	(1,050)	**76,024**	86,329	**10,305**	1
Trade receivables with group companies	4	-	**4**	12	**8**	
Loans to shareholder	976,160	(708,501)	**267,659**	388,551	**120,892**	2
Other receivables	14,820	972	**15,792**	44,309	**28,517**	3
Consumer debtors	2,101,544	(48,285)	**2,053,259**	2,064,002	**10,743**	4
Cash and cash equivalents	29	-	**29**	31	**2**	
	3,169,631	**(756,864)**	**2,412,767**	**2,583,234**	**170,467**	
Non-Current Assets						
Property, plant and equipment	9,685,007	342,961	**10,027,968**	9,997,530	**(30,438)**	5
Intangible assets	-	-	**-**	63,191	**63,191**	5
	9,685,007	**342,961**	**10,027,968**	**10,060,721**	**32,753**	
Total Assets	**12,854,638**	**(413,903)**	**12,440,735**	**12,643,955**	**203,220**	
Liabilities						
Current Liabilities						
Trade payables with group companies	26,264	(23,650)	**2,614**	8,090	**5,476**	
Loans from shareholder	1,043,811	631,581	**1,675,392**	2,038,158	**362,766**	6
Finance lease obligation: Shareholder	418	5,658	**6,076**	4,564	**(1,512)**	7
Finance lease obligation: Other	-	-	**-**	848	**848**	
Trade and other payables from exchange transactions	923,054	174,814	**1,097,868**	1,800,228	**702,360**	8
Provisions	87,898	(8,496)	**79,402**	18,823	**(60,579)**	9
	2,081,445	**779,907**	**2,861,352**	**3,870,711**	**1,009,359**	
Non-Current Liabilities						
Loans from shareholder	3,850,093	(618,731)	**3,231,362**	2,657,976	**(573,386)**	6
Finance lease obligation: Shareholder	10,007	8,780	**18,787**	12,350	**(6,437)**	7
Finance lease obligation:Other	-	-	**-**	112	**112**	
Retirement benefit obligation	97,138	(11,176)	**85,962**	80,134	**(5,828)**	
	3,957,238	**(621,127)**	**3,336,111**	**2,750,572**	**(585,539)**	
Total Liabilities	**6,038,683**	**158,780**	**6,197,463**	**6,621,283**	**423,820**	
Net Assets	**6,815,955**	**(572,683)**	**6,243,272**	**6,022,672**	**(220,600)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Equity and Liabilities						
Contribution from shareholder	1	-	**1**	1	**-**	
Reserves						
Accumulated surplus	6,815,954	(572,683)	**6,243,271**	6,022,671	**(220,600)**	8
Total Net Assets	**6,815,955**	**(572,683)**	**6,243,272**	**6,022,672**	**(220,600)**	

1. Inventory is over the budget by 13.6% due to due to slow CAPEX replacement. Repairs orders reported have increased in certain areas resulting in more repairs requiring spares/materials. Johannesburg Water tend to do more in house point repairs which requires more materials. The meter maintenance work (T codes) have increased significantly over the last 2 years resulting in JW using more materials relating to meter work.

2. Loans to Shareholder is above budget as a result of monies due to Johannesburg water by City of Johannesburg at year end mainly due to timing differences.

3. Other Receivables exceeded the budget by 180,6%. This is as a result of Rand Water for an amount of R21 million as well as deposits paid to City Power for electricity which was not budgeted for.

4. There is an adverse variance on consumer debtors:exchange transaction of 0.5% (R11m). The variance is the result of lower payment levels which resulted in a higher debtor balance at the end of the year.

5. The value of property, plant and equipment and intangible assets at 30 June 2017 is over the budget by R33 million (0.3%) mainly due to accelarated capitalisation of assets (AUC), recognition of developer developer funded assets and recognition of capital spares.

6. The variance of 3.9% for loans from shareholder is attributable to the increased value of the City of Johannesburg outstanding balance at the end of the reporting period.

7. Finance lease liability shows a favourable variance of 59%, due to a vehicle fleet and other equipment where the lease term expired and assets returned.

8. The variance of 64% in trade payables is attributable to increased operating expenses (bulk water purchases), delayed incurring of capital expenditure which contributed to increased capex creditors at year-end and an increase in payments received in advance from debtors. It should be noted that the trade and other paybles from exchange transcations as compared to the previous year has decreased by 5%.

9. The variance for provisions of 76% is attributable to the performance bonus and service bonus provision accounts being adjusted to reflect actual requirements.

10. There is a variance of 3.5% on accumalated surplus, which is the result of the lower profits because of an adverse variance on revenue, and a higher level of debt impairment than budgeted.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	7,978,317	(579,457)	**7,398,860**	7,792,693	**393,833**	1
Interest revenue	97,790	-	**97,790**	141,370	**43,580**	
	8,076,107	**(579,457)**	**7,496,650**	**7,934,063**	**437,413**	
Payments						
Cash paid to suppliers and employees	(6,865,059)	504,697	**(6,360,362)**	(7,267,482)	**(907,120)**	2
Finance costs	(400,052)	72,089	**(327,963)**	(327,158)	**805**	
	(7,265,111)	**576,786**	**(6,688,325)**	**(7,594,640)**	**(906,315)**	
Net cash flows from operating activities	**810,996**	**(2,671)**	**808,325**	**339,423**	**(468,902)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(736,636)	-	**(736,636)**	(614,971)	**121,665**	3
Proceeds from disposal of plant and equipment	-	-	**-**	263	**263**	
Purchase of intangible assets	-	-	**-**	(9,042)	**(9,042)**	
Net cash flows from investing activities	**(736,636)**	**-**	**(736,636)**	**(623,750)**	**112,886**	
Cash flows from financing activities						
Cash movement in loans from shareholder	(74,361)	2,671	**(71,690)**	290,272	**361,962**	
Cash movement in finance lease obligation: Shareholder	-	-	**-**	(4,397)	**(4,397)**	
Net movement in finance lease obligation: Other	-	-	**-**	(1,546)	**(1,546)**	
Net cash flows from financing activities	**(74,361)**	**2,671**	**(71,690)**	**284,329**	**356,019**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net (decrease) in cash and cash equivalents	(1)	-	**(1)**	2	**3**	
Cash and cash equivalents at the beginning of the year	29	-	**29**	29	**-**	
Cash and cash equivalents at the end of the year	**28**	**-**	**28**	**31**	**3**	

1. The actual cash receipts are above the adjusted budget by 5.3%. This is an achievement as compared to the budget and the CoJ revenue and JW should continue to improve the cash collection.

2. The actual payments are above budget by 14.3% mainly due to less payments projected for the budget.

3. The actual amount spent on property, plant and equipment is 16.5% less than budgeted due to delays in capital expenditure as a result of work stoppages by communities due to subcontracting and other demands for opportunities especially for specialised works as well as other service providers being liquidated.

The approved adjusted budget 2016/2017, as approved by council, is available for inspection at the registered office of the City of Johannesburg Metropolitan Municipality, Metropolitan Centre, 23 Loveday Street, Braamfontein, 2001.

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

Summary of Accounting Policies

1. Basis of preparation

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Local Government: Municipal Finance Management Act, Act 56 of 2003 and the Companies Act of South Africa, Act 71 of 2008.

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Significant judgements and estimation uncertainty includes:

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

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

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

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

Post retirement benefits

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

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

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

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for debt impairment of consumer debtors

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

Debtors with Credit Balance Allocation

City of Johannesburg Metropolitan Municipality (CJMM) invoices clients for the following revenue components; electricity on behalf of City Power, water on behalf of Johannesburg Water, refuse on behalf of Pikitup and rates and taxes on behalf of City of Johannesburg Core Administration. Revenue and corresponding debtor is allocated to each municipal entity based on the actual consumption/billing.

With regards to credit balances in consumer debtors, the City of Johannesburg allocates credit balances applicable to each entity using the billing trend, allocation takes into account that credit balances are typically utilised through consumption of services to be provided by the City of Johannesburg in the future. Management have applied judgment in determining the allocation basis, this is consistent with prior financial years.

Valuation of water stock

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

1.2 Property, plant and equipment

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, or replace part of such assets. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

Summary of Accounting Policies

1.2 Property, plant and equipment (continued)

Cost model

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

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

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

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

Item	Useful life
Buildings	5 - 30 years
Communication equipment	2 - 9 years
Furniture and Fixtures	5 - 21 years
Computer equipment	4 - 22 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 10 years
Minor plant	5 - 13 years
Office equipment	5 - 18 years
Plant and machinery	10 - 40 years
Waste water and water networks	
• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 16 years
• Water meters	4 - 13 years
• Pipelines and other	60 - 100 years

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

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

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

1.3 Intangible assets

An intangible asset is recognised when:

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

Summary of Accounting Policies

1.3 Intangible assets (continued)

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

Cost model

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

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

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

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

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

Item	Useful life
Computer software	3 - 6 years

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.4 Financial instruments

Initial recognition

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

Financial instruments are recognised initially at fair value.

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

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

Fair value determination

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

Loans and receivables

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

Summary of Accounting Policies

1.4 Financial instruments (continued)

Payables from exchange transactions

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

Cash and cash equivalents

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

Impairment of Financial Assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments (more than 90 days overdue as well as observable payment levels for overdue through to 89 days), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit.

Derecognition

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

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

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

Summary of Accounting Policies

1.4 Financial instruments (continued)

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

Gains and losses for Financial Assets

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

Gains and losses for Financial Liabilities

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

1.5 Income Tax

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

1.6 Leases

Finance leases

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

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

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

Operating leases

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

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

1.7 Inventories

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

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

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

Summary of Accounting Policies

1.7 Inventories (continued)

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

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

1.8 Impairment of non-financial assets

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

In assessing the value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in surplus or deficit in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may be decreased. If such indication exists, the company estimates the assets recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus/ (deficit).

1.9 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

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

Other post retirement obligations

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

Summary of Accounting Policies

1.9 Employee benefits (continued)

The entitlement to post-retirement health care benefits, gratuities and housing subsidies is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations using the projected unit credit method of these obligations on an annual basis. The obligation is measured at the present value of the estimated future cash flows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

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

1.10 Provisions and contingencies

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

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

Contingent assets and contingent liabilities are not recognised.

1.11 Bulk service contributions

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

1.12 Government Grants

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

1.13 Revenue

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

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

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

1.14 Interest Revenue

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

1.15 Borrowing costs

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

Summary of Accounting Policies

1.16 Presentation currency and rounding

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

1.17 Budget information

The company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements. The budget is prepared for the period from July 2016 to June 2017 which is in alignment to the presentation of the financial statements reporting period.

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

2. Statements and interpretations not yet effective

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

- GRAP 20 - Related Party Disclosure
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 34 - Separate Financial Statements
- GRAP 35 - Consolidated Financial Statements
- GRAP 36 - Investments in Associates and Joint
- GRAP 37 - Joint Arrangements
- GRAP 38 - Disclosure of Interests in Other Entities
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents
- GRAP 110 - Living and Non-living Resources

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

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12,208	-	12,208	12,208	-	12,208
Buildings	379,982	(234,607)	145,375	365,275	(229,297)	135,978
Plant and machinery	2,725,043	(697,093)	2,027,950	2,524,881	(609,290)	1,915,591
Furniture and fixtures	20,878	(12,689)	8,189	20,226	(11,795)	8,431
Motor vehicles	27,823	(12,177)	15,646	27,813	(7,317)	20,496
Office equipment	16,344	(11,546)	4,798	17,068	(10,053)	7,015
Computer equipment	91,671	(59,595)	32,076	93,180	(54,916)	38,264
Communication equipment	26,638	(14,560)	12,078	26,181	(11,813)	14,368
Laboratory equipment	40,804	(28,698)	12,106	42,914	(26,986)	15,928
Minor plant	167,281	(68,826)	98,455	168,428	(56,060)	112,368
Inventory - Capital	69,001	-	69,001	72,379	-	72,379
Wastewater network	2,700,996	(235,534)	2,465,462	2,479,801	(210,915)	2,268,886
Water network	5,754,233	(660,048)	5,094,185	5,424,081	(552,631)	4,871,450
Total	**12,032,902**	**(2,035,373)**	**9,997,529**	**11,274,435**	**(1,781,073)**	**9,493,362**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	12,208	-	-	-	-	-	12,208
Buildings	135,978	17,250	-	(2,544)	-	(5,309)	145,375
Plant and machinery	1,915,591	200,162	-	-	-	(87,803)	2,027,950
Furniture and fixtures	8,431	1,109	(13)	-	-	(1,338)	8,189
Motor vehicles	20,496	190	(181)	-	-	(4,859)	15,646
Office equipment	7,015	482	(326)	-	-	(2,373)	4,798
Computer equipment	38,264	5,425	(135)	-	-	(11,478)	32,076
Communication equipment	14,368	469	(3)	-	-	(2,756)	12,078
Laboratory Equipment	15,928	138	-	-	-	(3,960)	12,106
Minor plant	112,368	112	(2)	-	-	(14,023)	98,455
Inventory - capital	72,379	-	-	(3,378)	-	-	69,001
Wastewater network	2,268,886	138,301	(263)	-	83,681	(25,143)	2,465,462
Water network	4,871,450	251,333	(164)	5,922	77,307	(111,663)	5,094,185
	9,493,362	**614,971**	**(1,087)**	**-**	**160,988**	**(270,705)**	**9,997,529**

Land and buildings

Land and buildings to the value of R 157,583 (2016: R 148,186) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

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

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

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	12,208	-	-	-	-	-	12,208
Buildings	107,135	33,627	-	-	-	(4,784)	135,978
Plant and machinery	1,973,808	90,157	-	(71,192)	-	(77,182)	1,915,591
Furniture and fixtures	9,313	533	(1)	-	-	(1,414)	8,431
Motor vehicles	9,147	13,887	(20)	(52)	-	(2,466)	20,496
Office equipment	7,808	2,022	(4)	-	-	(2,811)	7,015
Computer equipment	32,991	13,929	(51)	3	-	(8,608)	38,264
Communication equipment	11,017	5,720	(1)	-	-	(2,368)	14,368
Laboratory Equipment	17,019	3,077	(6)	-	-	(4,162)	15,928
Minor plant	36,276	12,080	(2)	71,272	-	(7,258)	112,368
Inventory - capital	64,469	7,910	-	-	-	-	72,379
Wastewater network	2,135,187	60,636	-	359	96,506	(23,802)	2,268,886
Water network	4,331,312	566,205	-	(390)	70,065	(95,742)	4,871,450
	8,747,690	**809,783**	**(85)**	**-**	**166,571**	**(230,597)**	**9,493,362**

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

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

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

3. Property, plant and equipment (continued)

The following leased assets are included in Property, Plant and Equipment listed above

	2017			2016		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office Equipment	4,507	(3,616)	891	4,507	(2,114)	2,393
Motor Vehicles	24,988	(9,322)	15,666	27,813	(7,298)	20,515
Total	**29,495**	**(12,938)**	**16,557**	**32,320**	**(9,412)**	**22,908**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

3. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment under construction by class.		
Water network	657,441	702,626
Plant and machinery	420,496	220,919
Wastewater network	196,540	93,009
Buildings	45,434	32,210
Furniture and fixtures	206	-
Laboratory equipment	17	-
Office equipment	2	118
	1,320,136	**1,048,882**

Carrying value of property, plant and equipment included in Capital Work in Progress that is taking a significantly longer period of time to complete than expected

Project name	Reason for delay	Amount
BWW513: Northern Works Storm Dams	Project delayed by 25% due to the lining that was damaged by heavy rains. Project completion date moved from January 2017 to October 2017	132,050
Construction of Randburg Depot	Project delayed by 30% due to contractor involuntary liquidation. Project completion date moved from February 2018 to July 2018	45,435
UR634: Ennerdale District: Upgrade Water Infrastructure	Project delayed by 52% due to late installation of electricity connection by power utility and vandalism of the infrastructure. Project completion date moved from December 2013 To December 2017	43,579
BWW602: Bushkoppies Balancing Tank	Project delayed by 34% due to community protest. Project completion date moved from January 2018 to January 2019	26,027
OM1300: Bulk Meters	Project delayed by 50% due to contractor being terminated. Project completion date moved from June 2018 to December 2019	20,371
UR1328: Turffontein Redevelopment Corridor Water	Project delayed by 22% due to lack of funds. Project completion date moved from December 2018 to December 2019	11,609
UR1312: Sandton Water Upgrade	Project delayed by 16% due to lack of funds. Project completion date to be moved from December 2019 to December 2020	10,809
UR1315: Louis Botha Bus Rapid Transit (BRT) Corridor Water Renewal	Project delayed by 32% due to lack of funds. Project completion date moved from December 2018 to December 2020	9,616
UR1314: Diepsloot Sewer Pipeline & Bridge Repair	Project delayed by 19% due to environmental issues. Project completion date moved from December 2018 to December 2019	8,276
UR1327: Corridors of Freedom Perth Empire	Project delayed by 22% due to lack of funds. Project completion date moved from December 2018 to December 2019	8,080
UR1405: Louis Botha Bus Rapid Transit (BRT) Corridor Sewer Renewal	Project delayed by 22% due to lack of funds. Project completion date moved from December 2018 to December 2019	7,163
PS1401: Investigations Water & Sewer Networks	Project delayed by 35% due to lack of funds. Project completion date moved from June 2017 to December 2019	6,571

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

3. Property, plant and equipment (continued)

UR705: Bryanston District : Upgrade Water	Project delayed by 89% due to contractor being liquidated. Project completion date moved from December 2009 to July 2018	3,302
UFW914: Infrastructure Upgrade - Eldorado Park	Project delayed by 45% due to lack of funds. Project completion date moved from June 2017 to December 2019	3,107
UFW913: Infrastructure Upgrade - Alexandra	Project delayed by 45% due to lack of funds. Project completion date moved from June 2017 to December 2019	3,086
UR1311: Linbro Park Water Upgrade	Project delayed by 9% due to lack of funds. Project completion date moved from December 2018 to June 2019	2,518
UR1319: Witpoortjie Water Upgrade	Project delayed by 39% due to lack of funds. Project completion date moved from June 2018 to June 2019	1,892
UR1408: Perth Empire Bus Rapid Transit (BRT) Corridor Sewer Renewal	Project delayed by 13% due to lack of funds. Project completion date moved from December 2018 to June 2019	1,868
UFW915: Infrastructure Upgrade - Ivory Park	Project delayed by 45% due to lack of funds. Project completion date moved from June 2017 to December 2019	1,131
UR1302: Carlswarld Water Upgrade	Project delayed by 32% due to lack of funds. Project completion date moved from June 2018 to December 2019	515
EI1308: Carlswarld Reservoir 10Ml	Project delayed by 32% due to lack of funds. Project completion date moved from June 2018 to December 2019	135
		347,140

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Employee related costs	557,146	510,301
Contracted services	267,344	242,214
General expenses	127,047	158,769
	951,537	**911,284**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

4. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1,727	-	1,727	1,727	-	1,727
Computer software	147,090	(85,626)	61,464	138,048	(70,154)	67,894
Total	**148,817**	**(85,626)**	**63,191**	**139,775**	**(70,154)**	**69,621**

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Servitudes	1,727	-	-	1,727
Computer software	67,894	9,042	(15,472)	61,464
	69,621	**9,042**	**(15,472)**	**63,191**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Servitudes	1,727	-	-	1,727
Computer software	66,354	15,794	(14,254)	67,894
	68,081	**15,794**	**(14,254)**	**69,621**

Intangible assets in the process of being developed

Cumulative expenditure recognised in the carrying value of Intangible assets

	2017	2016
Intangible assets under development	5,262	13,887

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

5. Inventories

Raw materials, components	71,991	55,811
Water	15,238	13,189
Subtotal	87,229	69,000
Provision for inventory write downs	(900)	(1,841)
	86,329	**67,159**

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

6. Trade receivables and payables with group companies

Trade payables with group companies

Johannesburg Roads Agency SOC Ltd	(7,958)	(9,528)
Johannesburg City Parks NPC	(102)	(313)
City Power SOC Ltd	-	(36)
City of Johannesburg Property Company SOC Ltd	(30)	(6)
	(8,090)	**(9,883)**

Terms and Conditions

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

Trade receivables with group companies

Johannesburg Roads Agency SOC Ltd	12	10

Credit quality of trade receivables with group companies

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

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

Trade receivables with group companies past due but not impaired

There are no trade receivables with group companies which are past due and not impaired.

Figures in Rand thousand	2017	2016

7. Loans to/(from) shareholder

City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(2,657,976)	(2,776,690)
City of Johannesburg Metropolitan Municipality - Other short term loans from	(1,424,572)	(1,226,189)
City of Johannesburg Metropolitan Municipality - Short term portion of long term loans	(613,586)	(537,732)
City of Johannesburg Metropolitan Municipality - Shareholder loans	-	(64,972)
City of Johannesburg Metropolitan Municipality - Sweeping account	216,337	330,559
City of Johannesburg Metropolitan Municipality - Post retirement benefit	63,752	66,282
City of Johannesburg Metropolitan Municipality - Other loans	86,817	186,243
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	19,624	5,188
City of Johannesburg Metropolitan Municipality - Capex drawdown	2,021	-
	(4,307,583)	**(4,017,311)**

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

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

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

Loans to shareholder past due but not impaired

At 30 June 2017, R 5,213 (2016: R 54) were past due but not impaired.

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

30 days past due	4	20
60 days past due	-	-
90 days past due	-	25
180 days past due	5,209	9

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(3,249,392)	(3,244,231)
New loans	(445,769)	(474,989)
Repayments	485,120	465,995
Interest accrued	3,451	3,834
Balance at end of year	**(3,206,590)**	**(3,249,391)**

Conduit loans are repayable in equal quarterly instalments over a period of 10 years from loan acquisition.
These unsecured loans bear interest at a fixed rate of 9.31% to 11.23% (2016: 9.31% to 10.9%) .

FDA 1 (Caylon) is repayable in equal quarterly instalments over a period of 10 years, commencing 30 September 2008. These unsecured loans bear interest at a variable rate linked to Jibar less 35 basis points resulting in a rate of 6.98% for the current financial year (2016: 6.88%)

FDA 2 is repayable in equal half yearly instalments over a period of 12 years, commencing 15 November 2014. These unsecured loans bear interest at a variable rate linked to Jibar plus 70 basis points resulting in a rate of 7.4% and 7.47% for the current financial year (2016: 7.4% and 7.47%)

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

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

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(129,966)	(194,961)
Repayments	64,994	64,995
Balance at the end of the year	**(64,972)**	**(129,966)**

The unsecured loans bear interest at a nominal annual rate of 14.5% to 15% (2016: 14.5% to 15%) compounded monthly and are repayable in equal quarterly instalments over a period of 10 years. The quarterly capital repayments commenced in 2009.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	216,337	330,559

The bank sweeping account is an unsecured interest bearing loan to the shareholder with no fixed repayment terms. The loan earns interest at a variable rate which was 7.30% (2016: 7.12%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due		
- within one year	6,046	6,450
- in second to fifth year	14,142	20,048
	20,188	26,498
less: Future finance charges	(3,274)	(5,187)
Present value of minimum lease payments	**16,914**	**21,311**

Present value of minimum lease payments due		
- within one year (Current liabilities)	4,563	4,531
- in second to fifth year (Non-current liabilities)	12,351	16,780
	16,914	**21,311**

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

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

9. Finance lease obligation: Other

Minimum lease payments due		
- within one year	886	1,688
- in second to fifth year	115	1,001
	1,001	2,689
less: Future finance charges	(41)	(183)
Present value of minimum lease payments	**960**	**2,506**
Present value of minimum lease payments due		
- within one year (Current liabilities)	848	1,546
- in second to fifth year (Non-current liabilities)	112	960
	960	**2,506**

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

10. Other receivables

Sundry Debtor	38,347	7,296
Prepaid expenses	8,689	10,538
Allowance for impairment	(2,727)	(2,922)
Total other receivables	**44,309**	**14,912**

Other sundry debtors consist predominantly of staff debtors.

Credit quality of other receivables

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

Other receivables past due but not impaired

At 30 June 2017 R98 (2016: R203) was past due but not impaired.

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

30 days past due	-	102
60 days past due	84	39
90 days past due	7	62
120 days past due	-	-

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

10. Other receivables (continued)

Other receivables impaired

As of 30 June 2017, other receivables of R 38,347 (2016: R 7,296) were considered for impairment testing. The allowance for impairment losses for the period was R2,727 (2016: R2,922).

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

	2017	2016
Current	35,529	4,188
1 - 30 days	-	102
31 - 60 days	84	39
61 - 90 days	14	62
> 365 days	2,720	2,905
Total other receivables	**38,347**	**7,296**

Reconciliation of allowance for impairment of other receivables

	2017	2016
Opening balance	(2,922)	(2,843)
Allowance for impairment losses	(78)	(110)
Reversed during the year	273	31
	(2,727)	**(2,922)**

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

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

11. Consumer debtors: Exchange transactions

Trade receivables	7,410,630	6,132,233
Allowance for impairment	(5,346,627)	(4,391,972)
	2,064,003	**1,740,261**

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

The increase in consumer debtors is largely ascribed to deemed consumption areas where payment levels remain extremely poor.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis and characteristics like collection levels are considered during evaluation for impairment. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Summary of consumer debtors by classification

Domestic consumers		
Current	390,211	320,006
30 days	333,968	251,235
31 - 60 days	236,185	186,856
61 - 90 days	167,002	150,245
91 - 120 days	113,213	130,766
121 - 365 days	712,998	626,365
> 365 days	2,106,949	1,716,543
	4,060,526	3,382,016
Less: Allowance for impairment	(3,057,002)	(2,566,630)
	1,003,524	**815,386**

Domestic consumers - Past due and impaired		
30 days	(56,107)	(39,695)
31 - 60 days	(39,679)	(29,523)
61 - 90 days	(28,056)	(23,738)
91 - 120 days	(113,213)	(130,766)
121 - 365 days	(712,998)	(626,365)
> 365 days	(2,106,949)	(1,716,543)
	(3,057,002)	**(2,566,630)**

Domestic consumers - Current, past due and not impaired		
Current	390,211	320,006
30 days	277,861	211,540
31 - 60 days	196,506	157,333
61 - 90 days	138,946	126,507
	1,003,524	**815,386**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

11. Consumer debtors: Exchange transactions (continued)

Commercial consumers		
Current	382,722	416,629
30 days	255,129	174,883
31 - 60 days	118,234	88,661
61 - 90 days	84,869	89,039
91 - 120 days	103,046	115,089
121 - 365 days	536,580	447,175
> 365 days	1,548,340	1,204,433
	3,028,920	2,535,909
Less: Allowance for impairment	(2,106,664)	(1,655,956)
	922,256	**879,953**

Commercial consumers - Past due and impaired		
91 - 120 days	(89,690)	(94,289)
121 - 365 days	(468,634)	(357,234)
> 365 days	(1,548,340)	(1,204,433)
	(2,106,664)	**(1,655,956)**

Commercial consumers - Current, past due and not impaired		
Current	382,722	416,629
30 days	255,129	174,883
31 - 60 days	118,234	88,661
61 - 90 days	84,869	89,039
91 - 120 days	13,356	20,800
121-365 days	67,946	89,941
	922,256	**879,953**

National and provincial government		
Current	97,532	20,598
30 days	20,737	14,330
31 - 60 days	12,356	2,878
61 - 90 days	7,598	7,116
91 - 120 days	8,359	9,404
121 - 365 days	41,576	39,574
> 365 days	133,026	120,408
	321,184	214,308
Less: Allowance for impairment	(182,961)	(169,386)
	138,223	**44,922**

National and provincial government - Past due and impaired		
91 - 120 days	(8,359)	(9,404)
121 - 365 days	(41,576)	(39,574)
> 365 days	(133,026)	(120,408)
	(182,961)	**(169,386)**

National and provincial government - Current, past due and not impaired		
Current	97,532	20,598
30 days	20,737	14,330
31 - 60 days	12,356	2,878
61 - 90 days	7,598	7,116
	138,223	**44,922**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

11. Consumer debtors: Exchange transactions (continued)

Total consumer debtors		
Current	870,465	757,233
30 days	609,834	440,448
31 - 60 days	366,775	278,395
61 - 90 days	259,469	246,400
91 - 120 days	224,618	255,259
121 - 365 days	1,291,154	1,113,114
> 365 days	3,788,315	3,041,384
	7,410,630	6,132,233
Less: Allowance for impairment	(5,346,627)	(4,391,972)
	2,064,003	**1,740,261**

Total consumer debtors - Past due and impaired		
30 days	(56,107)	(39,695)
31 - 60 days	(39,679)	(29,523)
61 - 90 days	(28,056)	(23,738)
91 - 120 days	(211,262)	(234,459)
121 - 365 days	(1,223,208)	(1,023,173)
> 365 days	(3,788,315)	(3,041,384)
	(5,346,627)	**(4,391,972)**

Total consumer debtors - Current, past due but not impaired		
Current	870,465	757,233
30 days	553,727	400,753
31 - 60 days	327,096	248,872
61 - 90 days	231,413	222,662
91 - 120 days	13,356	20,800
121 - 365 days	67,946	89,941
	2,064,003	**1,740,261**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(4,391,972)	(3,994,818)
Contributions to allowance	(2,018,854)	(1,613,552)
Debt impairment written off against allowance	1,064,199	1,216,398
	(5,346,627)	**(4,391,972)**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

12. Financial assets by category

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

2017

	Loans and receivable	Other	Total
Consumer debtors	2,064,003	-	2,064,003
Other receivables	35,620	-	35,620
Prepayments	-	8,689	8,689
Total Other Receivables	**35,620**	**8,689**	**44,309**
Loans to shareholder	**388,551**	**-**	**388,551**
Trade receivables with group companies	**12**	**-**	**12**
Cash and cash equivalents	**31**	**-**	**31**
	2,488,217	**8,689**	**2,496,906**

2016

	Loans and receivable	Other	Total
Consumer debtors	1,740,261	-	1,740,261
Other receivables	4,374	-	4,374
Prepayments	-	10,538	10,538
Total Other Receivables	**4,374**	**10,538**	**14,912**
Loans to shareholder	**588,272**	**-**	**588,272**
Trade receivables with group companies	**10**	**-**	**10**
Cash and cash equivalents	**29**	**-**	**29**
	2,332,946	**10,538**	**2,343,484**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017	2016
Cash on hand	31	29

The company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder. The amount due as at 30 June 2017 is R216 million (2016: R330 million).

Bank	Account Type	Account number	2017	2016
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000196819	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			-	**-**

14. Contribution from shareholder

	2017	2016
Authorised		
1000 Ordinary shares of R1 each	1	1
Issued		
200 Ordinary shares of R1 each	1	1

Figures in Rand thousand | 2017 | 2016

Notes to the Financial Statements

15. Retirement benefit obligations

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

		2017	2016
Post-retirement liability			
Provision:Post-Retirement Medical Obligation	15.1	30,933	33,030
Provision:Post-Retirement Housing Subsidy obligation	15.2	-	9
Provision:Post-Retirement Gratuity Obligation	15.3	49,201	56,398
Balance at end of year		**80,134**	**89,437**

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 4 employees (2016: 9 employees), and 54 continuation members (2016: 51 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

	2017	2016
Opening balance	33,030	36,032
Benefits paid	(2,058)	(155)
Current service costs	49	169
Interest costs	2,809	2,989
Actuarial gain	(2,897)	(6,005)
Balance at end of year	**30,933**	**33,030**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

	2017	2016
Discount rates used	8.73 %	8.74 %
Expected increase in salaries	6.54 %	7.41 %

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

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	33,916	30,933	28,370
Percentage change	-9.64%	0%	8.29%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	31,932	33,029
Percentage change	-3.23%	0%

Figures in Rand thousand | 2017 | 2016

15. Retirement benefit obligations (continued)

Other assumptions:

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

15.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 0 employees (2016: 1 employee). and 0 continuation member (2016: 0 continuation member). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement housing subsidy plan

	2017	2016
Opening balance	9	61
Current service costs	1	1
Interest costs	1	5
Actuarial gain	(11)	(58)
Balance at end of year	**-**	**9**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

	2017	2016
Discount rates used	8.73 %	8.74 %
Expected increase in salaries	6.54 %	7.41 %

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

There were no employees or retirees eligible for this benefit at the valuation date.

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	0	0	0
Percentage change	0%	0%	0%

Post Retirement Mortality

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

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

15. Retirement benefit obligations (continued)

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 230 employees (2016: 287 employees). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

	2017	2016
Opening balance	56,398	50,896
Benefits paid	(7,151)	(7,982)
Interest Cost	4,544	4,117
Actuarial loss / (gain)	(4,590)	9,367
Balance at end of year	**49,201**	**56,398**

Key assumptions used

Assumptions used on last valuation on 30 June 2016.

	2017	2016
Discount rates used	8.73 %	8.74 %
Expected increase in salaries	6.54 %	7.41 %

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

Change in assumptions

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

	-1%	**0%**	**1%**
Liability	52,023	49,201	46.623
Percentage change	-5.74%	0%	5.24%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	49,201	49,201
Percentage change	0%	0%

Five years Historical Post Retirement Obligations

The experience adjustments were calculated in the current and prior financial year however it was impracticable to calculate it for previous valuations. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

	2017	2016	2015
Post Retirement Obligation	80,134	89,437	86,989
Experience adjustment	(3,170)	(7,338)	(3,237)

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

15. Retirement benefit obligations (continued)

15.4 Net expense recognised in the statement of financial performance

	2017	2016
Post retirement medical aid plan	(2,097)	3
Post retirement housing subsidy plan	(9)	(52)
Post retirement gratuity plan	(7,197)	5,502
Total included in employee related costs	**(9,303)**	**5,453**

15.5 Defined contribution plan

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

	2017	2016
The total company contribution to such schemes	88,088	81,344

16. Deferred income

Unspent conditional grants comprise:

Government grants movement during the year

	2017	2016
Balance at the beginning of the year	-	2,260
Received in current year	70,511	247,637
Utilised during the year	(70,511)	(249,897)
Balance at the end of the year	**-**	**-**

Grants received during the year are made up of predominantly Urban Settlements Development Grant (USDG) and a marginal grant from the City of Johannesburg Housing Department as distributed by the City of Johannesburg Metropolitan Municipality. This distribution is made only upon fulfillment of conditions as imposed from time to time by the City of Johannesburg Metropolitan Municipality.

17. Trade and other payables from exchange transactions

	2017	2016
Trade payables	774,182	646,976
Payments received in advanced	578,365	458,263
Consumer deposits	296,632	323,480
VAT	59,512	(21,214)
Accrued leave pay	40,156	36,026
Accrued bonus (13th Cheque)	24,267	23,044
Operating lease payables	14,168	13,295
Sundry payables	12,946	17,973
	1,800,228	**1,497,843**

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

Figures in Rand thousand 2017 2016

18. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	15,727	18,823	(13,990)	(1,737)	18,823
	15,727	**18,823**	**(13,990)**	**(1,737)**	**18,823**

Reconciliation of provisions - 2016

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

Figures in Rand thousand 2017 2016

19. Financial liabilities by category

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

2017

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1,149,962	-	1,149,962
South African Revenue Services	-	71,645	71,645
Customer Prepayments	-	578,621	578,621
Trade and other payables from exchange transactions	**1,149,962**	**650,266**	**1,800,228**
Trade payables with group companies	**8,090**	**-**	**8,090**
Loans from Shareholder	**4,696,134**	**-**	**4,696,134**
Finance lease obligation: Shareholder	16,914	-	16,914
Finance lease obligation: Other	960	-	960
Provisions	**-**	**18,823**	**18,823**
	5,872,060	**669,089**	**6,541,149**

2016

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1,049,415	-	1,049,415
South African Revenue Services	-	(10,524)	(10,524)
Customer Prepayments	-	458,952	458,952
Trade and other payables from exchange transactions	**1,049,415**	**448,428**	**1,497,843**
Trade payables with group companies	**9,883**	**-**	**9,883**
Loans from Shareholder	**4,605,583**	**-**	**4,605,583**
Finance lease obligation: Shareholder	21,311	-	21,311
Finance lease obligation: Other	2,506	-	2,506
Provisions	**-**	**15,727**	**15,727**
	5,688,698	**464,155**	**6,152,853**

20. Revenue from exchange transactions

	2017	2016
Sale of water	5,293,605	4,936,328
Rendering of sanitation services	3,299,977	2,914,333
	8,593,582	**7,850,661**

21. Other income

	2017	2016
Developer funded asset income	160,987	166,570
Other income	99,901	154,411
Bulk service contributions received	85,960	82,353
Laboratory income	1,225	1,103
	348,073	**404,437**

22. Revenue from non-exchange transactions

	2017	2016
Government grants released	70,511	249,897

Figures in Rand thousand 2017 2016

23. Water Losses: Physical and Commercial

Water losses are included in cost of sales. The level of physical and commercial losses for the year under review is 26.8% [R1,1 billion] (2016: 22.6% [R895,6 million). The level of physical losses for the year under review is 19.3% [R822,0 million], (2016: 16.3% [R645,9 million]). The level of commercial losses for the year under review is 7.5% [R319,4 million], (2016: 6.3% [R249,6 million]).

It is acknowledged and accepted that a certain level of water losses cannot be avoided from a technical perspective and is considered acceptable from an economic perspective. This means the cost of interventions to reduce water losses from a technical perspective should be less than the savings to be realised. The industry norm for water losses is 18%. Taking consideration hereof would result in a reduction of the level of water losses for the year under review to 8.8% [R374,8 million], (2016: 4.6% [R182,2 million]). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

24. Operating expenses

	Note	2017	2016
Allowance for debt impairment	26	1,905,026	1,418,342
Employee costs	28	931,483	839,917
Contracted services		331,740	374,406
Depreciation, amortisation and impairments	3 & 4	286,177	244,851
Electricity and chemicals	27	217,488	191,850
Contractors billing and credit control		202,728	194,422
Lease rentals on operating lease		131,023	118,408
Store issues and direct material purchases		105,694	117,445
Security		41,383	36,225
Information technology expenses		33,097	21,830
Other operating expenses		29,153	26,390
Marketing and communication expenses		16,803	13,325
Telephone and fax		17,072	17,048
Insurance		12,214	6,503
Auditors remuneration	25	5,082	4,472
Printing and stationery		3,036	3,036
Motor vehicle expenses		2,459	2,238
Legal expenses		1,865	1,368
Contractors meter reading		1,631	14,703
Loss on disposal of property, plant and equipment		824	84
		4,275,978	**3,646,863**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

25. Auditors remuneration

Fees	5,082	4,472

26. Allowance for receivable impairment (Bad debts)

Allowance for impairment	1,905,026	1,418,342

27. Electricity and Chemicals

Electricity	194,411	164,860
Chemicals	23,077	26,990
	217,488	**191,850**

28. Employee costs

Basic salaries	624,473	567,592
Other allowances	125,237	104,339
Pension costs	94,805	88,204
Medical aid - company contributions	63,491	56,118
Leave pay	16,919	5,991
Housing benefits and allowances	6,542	7,088
Post retirement benefit plan cost (Defined contribution plan)	16	10,585
	931,483	**839,917**

Average number of employees employed during the year		
- Permanent	2,617	2,563

29. Interest revenue

Interest earned - sweeping account	19,314	27,706
Interest on impaired accounts	122,056	92,289
	141,370	**119,995**

30. Finance costs

Interest paid - Shareholder loans and Finance leases	327,158	345,912

31. Taxation

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

Notes to the Financial Statements

Figures in Rand thousand		2017	2016

32. Cash generated from operations

Surplus		291,336	782,517
Adjustments for:			
Depreciation, amortisation and impairments	3&4	286,177	244,851
Developer funded asset income		(160,988)	(166,570)
Allowance for impairment	26	1,905,026	1,418,342
Movements in retirement benefit assets and liabilities	15	(9,303)	2,448
Movements in provisions	18	3,096	(5,766)
Loss on disposal of property, plant and equipment		824	84
Changes in working capital:			
Inventories	5	(19,170)	(2,221)
Other receivables	10	(29,397)	(1,257)
Consumer debtors	11&26	(2,228,768)	(1,493,944)
Trade receivables with group companies		(2)	(6)
Trade and other payables from exchange transactions	17	302,385	(271,967)
Unspent conditional grants	16	-	(2,260)
Trade payables in group companies	6	(1,793)	6,240
		339,423	**510,491**

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Property, plant and equipment	403,097	376,125

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

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

This expenditure will be financed from:		
Loans	179,384	264,850
Grants and subsidies	124,378	51,002
Own funding	99,335	60,273
	403,097	**376,125**

Operating leases - as lessee

Minimum lease payments due

• within one year	38,306	38,156
• in second to fifth year inclusive	84,218	122,524
	122,524	**160,680**

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

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

34. Related parties

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

Relationships	
Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company (SOC) Ltd City Power Johannesburg (SOC) Ltd Johannesburg City Parks and Zoo (NPC) Johannesburg Development Agency (SOC) Ltd Johannesburg Metropolitan Bus Services (SOC) Ltd Johannesburg Roads Agency (SOC) Ltd Johannesburg Social Housing Company (SOC) Ltd Metropolitan Trading Company (SOC) Ltd Pikitup Johannesburg (SOC) Ltd The Johannesburg Civic Theatre (SOC) Ltd The Johannesburg Fresh Produce Market (SOC) Ltd
Members of key management	Directors' emoluments and other Key Management Personnel Remuneration - Note 35
Other related parties	There were no related party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

Related party balances

	2017	2016
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	388,551	588,572
Johannesburg Roads Agency (SOC) Ltd - General	12	10
	388,563	**588,582**

	2017	2016
Amounts owing to related parties		
City of Johannesburg Metropolitan Municipality- Non current liabilities	2,657,976	2,841,662
City of Johannesburg Metropolitan Municipality - Current liabilities	2,038,158	1,764,221
City of Johannesburg Metropolitan Municipality - Leases : Current and non-current liabilities	16,913	21,311
City Power Johannesburg (SOC) Ltd	-	36
City of Johannesburg Property Company (SOC) Ltd	30	6
Johannesburg City Parks and Zoo (NPC)	102	313
Johannesburg Roads Agency (SOC) Ltd	7,958	9,528
	4,721,137	**4,637,077**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

34. Related parties (continued)

Related party transactions

	2017	2016
Sales to related parties		
City of Johannesburg Metropolitan Municipality	253,541	232,708
Johannesburg Social Housing Company (SOC) Ltd	10,269	6,494
Johannesburg Metropolitan Bus Services (SOC) Ltd	8,591	6,746
Pikitup Johannesburg (SOC) Ltd	8,506	2,181
City Power Johannesburg (SOC) Ltd	7,394	6,242
Johannesburg Civic Theatre (SOC) Ltd	929	948
Johannesburg City Parks and Zoo (NPC)	20,856	16,302
Johannesburg Roads Agency (SOC) Ltd	8,205	6,804
The Johannesburg Fresh Produce Market (SOC) Ltd	2,232	13,405
	320,523	**291,830**
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(221,198)	(213,572)
Pikitup Johannesburg (SOC) Ltd	(1,004)	(751)
City Power Johannesburg (SOC) Ltd	(86,480)	(72,495)
City of Johannesburg Property Company (SOC) Ltd	(92)	(46)
Johannesburg Metrobus	(13)	(5)
Johannesburg City Parks and Zoo (NPC)	(1,251)	(716)
Johannesburg Roads Agency (SOC) Ltd	(23,402)	(17,467)
	(333,440)	**(305,052)**
Interest on shareholder loans, notional and sweeping accounts		
Interest earned on sweeping and notional accounts	24,042	27,705
Interest paid on shareholder loans and lease liability	(332,660)	(349,463)
	(308,618)	**(321,758)**

All transactions with group companies are conducted at arms length.

Figures in Rand thousand

35. Directors' emoluments and other Key Management Personnel Remuneration

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

Executive directors

2017	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
LT Dhlamini - Managing Director*	1,679	-	299	205	2,183
CB Shongwe - Financial Director	1,478	-	120	219	1,817
	3,157	**-**	**419**	**424**	**4,000**

* LT Dhlamini resigned on 30 April 2017.

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

Non executive directors

Services rendered as director of company

B Furstenburg	57	-
ZD Hlatshwayo	31	166
SN Khondlo	73	105
JJH Mateya	310	245
MP Matji	163	140
K Mdutshane	401	371
G Moloi	114	55
C Motau	210	278
N Motlabane	139	211
KPM Simelane	440	402
R Mudliar	69	-
S Tshivhunge	73	-
	2,080	**1,973**

Services rendered as independent members of the audit committee

R Buys	115	91
V Mokwena	127	91
Z Samsam	73	84
	315	**266**

Figures in Rand thousand

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

Senior Management

2017	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
GJ Luden	1,208	48	10	289	1,555
N J Mukwevho	1,769	-	176	228	2,173
H Matthews	957	-	96	140	1,193
T Fikizolo *	614	-	-	127	741
	4,548	**48**	**282**	**784**	**5,662**

* T Fikizolo resigned on 31 March 2017.

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

* D Tshabalala resigned on 30 June 2016.

** BQ Zimu retired on 31 July 2015.

*** PJ Shabalala resigned on 8 April 2016.

Figures in Rand thousand

36. Comparatives Restated

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

Comparatives have also been restated as items have been reclassified in terms of Loans to/(from) the shareholder, as well as Trade receivables and payables with group companies. The reclassifications were necessitated in order to further enhance the reporting to users as well as to align with the Related party note 34 contained within the AFS.

In addition, a reclassification has also been effected in terms of the Capital Work in Progress account. In past years, Intangible assets were included in the Capital Work in Progress item disclosed in Property Plant and Equipment. As part of the consideration given to the updated requirements of GRAP 17, this item has been reclassified and included under intangibles, and the associated disclosures updated to reflect the same.

These reclassifications also allow for a seamless consolidation together with the City of Johannesburg Metropolitan Municipality in terms of consistency of treatment of disclosures related to these items across the group landscape.

The items impacted with the reclassification in the prior year are as follows:

Statement of Financial Position

		Correction of Error
Trade receivables with group companies	Amount due from JRA in respect of sundry services reclassified into this item	10
Trade payables with group companies	Amount due from JRA in respect of sundry services reclassified from this item	(10)
Loans to shareholders (Current Assets)	Amount due from COJ in respect of various obligations has been reclassified into this item	186,243
Loans from shareholders (Current Liabilities)	Amount due from COJ in respect of various obligations has been reclassified from this Item	(186,243)
Property, Plant and Equipment	Computer Software under development previously included under PPE Capital Work in Progress has been reclassified from this item	(13,888)
Intangibles	Computer Software under development previously included under PPE Capital Work in Progress has been reclassified into this item	13,888
		-

36. Comparatives Restated (continued)

Cash Flow Statement

Cash flow from investing activities		
Purchases of Intangible Assets	Acquisitions for the year for Computer Software under development previously included under PPE Capital Work in Progress has been reclassified from this item	(5,658)
Purchases of Property, Plant and Equipment	Acquisitions for the year for Computer Software under development previously included under PPE Capital Work in Progress has been reclassified to this item	5,658
		-

Over and above these items, a reclassification was necessitated in order to align the treatment of VAT on credit balances to that of the City of Johannesburg Metropolitan Municipality and its other entities within the group. The reclassification has resulted in the comparatives on note 17 being reclassified to the following items:

	Correction of Error
Payments Received in Advance	64,157
VAT	(64,157)
	-

Figures in Rand thousand

37. Prior year adjustments (errors)

37.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has recalculated the accrual value in relation to the 2015 and 2016 financial years. These transactions results in an adjustment to revenue for the 2015 and 2016 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2016	2015
Impact on Statement of Financial Position		
Decrease in Consumer debtors: Exchange transactions	(53,148)	(106,078)
Impact on Statement of Financial Performance		
Decrease in Revenue from exchange transactions	(53,148)	(106,078)
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(53,148)	(106,078)

37.2 Bad Debt Write off reversals

The City of Johannesburg Metropolitan Municipality has performed bad debt write off reversals during the 2017 financial year which relates to the R1.564 billion write off performed in the 2016 financial year. This has been accounted for as a prior period adjustment accordingly.

	2016	2015
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions (Trade receivables)	342,438	-
(Decrease) in consumer debtors: Exchange transactions (allowance for impairement)	(342,438)	-
Increase in Trade and other payables from exchange transactions (Accrued VAT)	40,940	-
Decrease in Trade and other payables from exchange transactions (Accrued VAT provision for bad debt)	(40,940)	-
Impact on Statement of Financial Performance		
(Increase) in operating expenses (Bad debt contributions)	(301,498)	-
Decrease in Operating expenses (Bad debt write offs)	301,498	-
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	-	-

37.3 Cost of Sales Adjustments

A credit was due to Johannesburg Water from Rand Water in respect of Water Demand Management and Acid Mine Drainage levies which were billed and paid for from July 2013 to June 2016. The amounts were quantified and agreed upon with Rand Water, totaling to R178,8 million and interest thereon was computed at the prevailing prime rate as per the contract totaling to R19.7 million.

	2016	2015
Impact on Statement of Financial Position		
Decrease in Trade and other payables from exchange transactions.	(126,756)	(71,816)
Impact on Statement of Financial Performance		
Decrease in cost of sales	(112,991)	(65,836)
Increase in Interest Revenue	13,765	5,980
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	126,756	71,816

Figures in Rand thousand

37.4 Depreciation Adjustment

Due to technical challenges in the roll out of the Integrated Asset Management system, assets that were commissioned in recent years were not sufficiently componentised prior to capitalisation. These assets were since identified and the depreciation thereon recalculated based on the componentised assets derived from capitalisation.

	2016	2015
Impact on Statement of Financial Position		
Decrease in Property, Plant and Equipment	(4,151)	(1,439)
Impact on Statement of Financial Performance		
Increase in Operating Expenses	(4,151)	(1,439)
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(4,151)	(1,439)

37.5 Cumulative Impact on Statement of Changes in Net Assets

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

	2016	2015
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	69,457	(35,701)

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

38. Risk management

Financial risk management

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

Liquidity risk

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

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

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	2,080,186	715,197	1,718,594	1,111,962
Finance lease obligation: Shareholder	4,564	4,503	7,847	-
Finance lease obligation: Other	848	112	-	-
Trade payables with group companies	8,090	-	-	-
Trade and other payables from exchange transactions	1,149,962	-	-	-

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	1,817,610	839,217	1,692,853	1,237,507
Finance lease obligation: Shareholder	4,531	4,430	12,350	-
Finance lease obligation: Other	1,545	848	113	-
Trade payables with group companies	9,883	-	-	-
Trade and other payables from exchange transactions	1,049,415	-	-	-

Interest rate risk

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

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

Sensitivity analysis for interest rate risk

Financial instrument	**Current interest rate**	2017	2016
Bank sweeping (+1%)	7.41%	2,643	3,306
Bank sweeping (-1%)		(2,615)	(3,306)
Shareholder loan (Jibar linked) (+1%)	6.99%	589	955
Shareholder loan (Jibar linked) (- 1%)		(589)	(955)

Figures in Rand thousand | 2017 | 2016

Notes to the Financial Statements

38. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note 12.

39. Deviations from formal procurement processes

Product Category	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Emergencies	4,942	29,704	34,646
Sole Suppliers	36,138	1,376	37,514
Impracticality	26,534	28,126	54,660
	67,614	**59,206**	**126,820**

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

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

It is further noted that the deviations referred to above have been ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers which are purely of a technical nature. All these deviations have also in terms of the regulations been reported to the board of directors as required. Total deviations of R 126,8 (2015/16: R307,1 million) for the period under review indicates a significant reduction of 59% compared to the previous period.

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

40. Unauthorised, fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure current year	3,275	-

Details of fruitless and wasteful expenditure current year

No.	Status	Amount
1	Expenditure incurred on contract JW 12007 for standing time on superblock 13b covering the Braaamfisherville and Tshepisong where the entity delayed in executing shut downs of water supply to enable the contractor to complete tie-ins on the network.	2,929
2	Interest paid to eJoburg Pension Fund as result of late payments that were made by the entity.	8
3	Compost screens acquired for the treatment works in 2009/2010 which were not taken into use until recently	338
		3,275

- The items listed above are currently under investigation and pending outcome, might be condoned or recovered in the next financial year.

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

41. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure		
Opening balance	48,368	25,616
Irregular expenditure current year identified in current year	74,425	19,677
Irregular expenditure prior year identified in current year	5,848	3,075
	128,641	**48,368**

Details of irregular expenditure prior year identified in current year

Farm operator contract		
During the current financial year, the farm operator contract was assessed and found to have irregularities which extended beyond the security element as previously reported.	**R5,848**	-

Details of Irregular expenditure current year

	Item	Details of irregular expenditure	Amount
1	FARM OPERATOR CONTRACT	For continued payments in respect of security on the Northern Farm. The contract has since expired in March 2017.	2,617
2	SUPPLY AND INSTALLATION OF WATER SAVING CISTERNS	For the continued payments in respect of the supply and installation of water saving cisterns, in which the criteria applied in the evaluation and adjudication of the competitive bidding process for the contract differed from the original bid specifications initially approved by the bid specifications committee. This project has since being completed.	16,115
3	PROVISION OF HUMAN RESOURCE BASED SECURITY CONTRACT	For the continued payments in respect of the provision of human resource based security services, in which service providers who were recommended for further evaluation as per the compliance evaluation sheets were not evaluated further based on site visit outcomes which were not properly highlighted as disqualification criterion in the bid documentation.	43,058
4	POWER CABLE AT NORTHERN WORKS	In respect of the entity procuring and restoring a stolen power cable at the Northern works unit 5 biological reactor aerator without following the required deviation process and without obtaining the requisite approvals from the accounting officer as required the by the entity's supply chain management policy and treasury regulations.	238
5	REHABILITATION AND COMMISSIONING OF PROTEA GLEN RESERVOIR	In respect of a bidder who was unfairly eliminated on functionality even though they met minimum requirement for further consideration in the award of the contract.	5,381
6	STOCK ITEMS	In respect of request for quotations not awarded to the bidder with the highest scoring points and reason for disqualification was because the quality of brand name offered was deficient.	365
7	STOCK ITEMS	In respect of goods and services procured by splitting quotations instead of following the tender process and considering that the total value of the transactions with the service provider procured exceeded the R200 000 threshold.	1,557
8	STATIONERY	In respect of goods and services procured via the deviations process which does not meet the deviation requirements as per SCM regulations.	53
9	CONSULTANTS	In respect of goods and services procured via the deviations process which does not meet the deviation requirements as per SCM regulations.	5,041
			74,425

Notes to the Financial Statements

	2017	2016 Restated

41. Irregular expenditure (continued)

Status of cumulative irregular expenditure awaiting council approval / condonation at reporting date and disciplinary/criminal proceedings if any.

	Item Description	Status	Disciplinary steps/ criminal proceedings	Amount
1	Awards made accepting BBBEE certificates and tax clearance certificates that were neither original nor certified copies	Approved by the Board of Directors for condonation and write off as irrecoverable. There was no evidence that any official benefitted personally and there was no loss to the entity. Condonation is yet to be finally approved and confirmed by the City of Johannesburg Metropolitan Council and National Treasury.	Written Warnings issued to staff involved.	25,616
2	FARM OPERATOR CONTRACT	Investigation concluded, no evidence of fraud or corruption.	Pending	12,207
3	SUPPLY AND INSTALLATION OF WATER SAVING CISTERNS	Forensic Investigation concluded, no evidence of fraud or corruption. Corrective measures taken to rectify breach.	Pending	16,486
4	PROVISION OF HUMAN RESOURCE BASED SECURITY CONTRACT	Forensic Investigation concluded, no evidence of fraud or corruption. Corrective measures taken to rectify breach.	Pending	61,697
5	POWER CABLE AT NORTHERN WORKS	Still under investigation	Pending	238
6	REHABILITATION AND COMMISSIONING OF PROTEA GLEN RESERVOIR	New - Investigation to be instituted	Pending	5,381
7	STOCK ITEMS	New - Investigation to be instituted	Pending	365
8	STOCK ITEMS	New - Investigation to be instituted	Pending	1,557
9	STATIONERY	New - Investigation to be instituted	Pending	53
10	CONSULTANTS	New - Investigation to be instituted	Pending	5,041
				128,641

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

42. Actual capital expenditure versus budgeted capital expenditure

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

Capital budget for the year	736,636	792,060
Actual spend for the year	(637,650)	(772,392)
	98,986	**19,668**
Actual spend as a percentage of budget	86.6 %	97.5 %

Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	445,769	-	445,769	445,769	-
Own Funding	213,917	-	213,917	122,031	91,886
Grants and subsidies	76,950	-	76,950	69,850	7,100
	736,636	**-**	**736,636**	**637,650**	**98,986**

Notes to the Financial Statements

Figures in Rand thousand	2017	2016

43. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2017	2016
Opening balance	-	167
Current year fee	5,082	4,472
Amount paid - current year	(5,082)	(4,472)
Amount paid - previous years	-	(167)
	-	**-**

PAYE and UIF

	2017	2016
Opening balance	10,690	9,784
Current year contributions	153,666	140,475
Amount paid - current year	(141,533)	(129,785)
Amount paid - previous years	(10,690)	(9,784)
	12,133	**10,690**

Pension and Medical Aid Contributions

	2017	2016
Current year contributions	231,587	211,856
Amount paid - current year	(231,587)	(211,856)
	-	**-**

44. Subsequent Events

Debt write offs as recommended by the City of Johannesburg Metropolitan Municipality, was approved by council on the 01 November 2017. The amount approved by council for write off is R 1 096 958. This was considered to be an adjusting event after reporting date as the processes to write off the debt were already initiated and the end of the financial year.

45. Change in accounting estimates

Useful lives of Property, plant and equipment

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

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

Notes to the Financial Statements

45. Change in accounting estimates (continued)

Communication range remains 2 to 9 years as described in the policy; however, the sub classes within the Communication have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R15.

Computer Equipment range has changed from between 4 to 15 years, to between 4 to 22 years. The impact of the change in estimate is a decrease in the current year depreciation by R464.

Furniture and Fittings range has changed from between 5 to 12 years, to between 5 to 21 years. The impact of the change in estimate is a decrease in the current year depreciation by R45.

Laboratory Equipment range remains 2 to 10 years as described in the policy; however, the sub classes within Laboratory Equipment have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R43.

Minor plant range remains 5 to 13 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R40.

Office Equipment range has changed from between 5 to 12 years, to between 5 to 18 years. The impact of the change in estimate is a decrease in the current year depreciation by R99.