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Johannesburg Water (SOC) Limited
Audited Annual Financial Statements
for the year ended 30 June 2014

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

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2014

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	G Simelane (Chairperson) L Dhlamini (Managing Director) B Shongwe (Financial Director) N Govender J Manche J Mateya K Mdutshane G Molo C Motau M Msezane N Skeepers
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

Johannesburg Water (SOC) Limited

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Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the audited financial statements and related financial information included in this report. It is their responsibility to ensure that the audited 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 audited 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 migration 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 acknowledge that they are ultimately responsible, within their control, 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 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 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 2015 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow. Cash collection will be managed by the City of Johannesburg Metropolitan Municipality.

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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 audited financial statements set out on pages 5 to 70, which have been prepared on the going concern basis, were approved by the directors on 25 November 2014 and were signed on their behalf by:



G Simelane (Chairperson)



L Dhlamini (Managing Director)

Johannesburg Water SOC Limited
Johannesburg
10 December 2014

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2014

Directors' Report

The directors submit their report for the year ended 30 June 2014.

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 R 535,2 million (2013: R 794,0 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.

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Audited Annual Financial Statements for the year ended 30 June 2014

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 2014, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. BORROWING LIMITATIONS

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

8. NON-CURRENT ASSETS

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

9. DISTRIBUTIONS TO SHAREHOLDER

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

10. DIRECTORS

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

Name	Nationality	Changes in appointment
G Simelane (Chairperson)	South African	Appointed 03 March 2014
L Dhlamini (Managing Director)	South African	
B Shongwe (Financial Director)	South African	Appointed 01 April 2014
N Govender	South African	
J Manche	South African	Appointed 03 March 2014
J Mateya	South African	
C Mbili	South African	Resigned 25 February 2014
K Mdutshane	South African	Appointed 03 March 2014
G Molo	South African	
C Motau	South African	
M Msezane	South African	
N Skeepers	South African	
C Tilly	South African	Retired 25 February 2014

11. SECRETARY

The secretary of the company is G J Luden.

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Directors' Report

12. CORPORATE GOVERNANCE

12.1. General

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

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

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

12.2. Board of directors

The board:

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

12.3. Chairperson and chief executive

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.

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Directors' Report

12.4. Executive meetings

The directors have met on 9 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 committee meeting	Combined Risk and Audit committee	Social and ethics committee	Total meetings
Total number of meetings held	9	6	8	4	5	3	3	38
G Simelane (Chairperson)	5	-	-	1	-	-	-	6
L Dhlamini (Managing Director)	8	5	6	4	5	3	3	34
B Shongwe (Financial Director)	4	2	1	1	2	3	1	14
N Govender	7	6	1	-	5	3	-	22
J Manche	5	-	1	-	-	-	-	6
J Mateya	7	-	7	-	5	3	-	22
C Mbili	1	2	-	-	1	-	-	4
K Mdutshane	5	2	-	-	2	3	-	12
G Moloji	6	-	-	2	-	-	-	8
C Motau	8	-	-	4	-	-	-	12
M Msezane	7	-	8	-	-	-	3	18
N Skeepers	9	-	2	4	5	2	2	24
C Tilly	4	-	6	-	-	-	2	12

12.5. Audit committee

C Mbili served as chairperson of the audit committee until 25 February 2014 and was replaced by K Mdutshane. The committee met 6 times during the financial year to review matters necessary to fulfil 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 4 meetings	
K Mdutshane	- attended 4 meetings	Retired 25 February 2014
V Mokwena	- attended 4 meetings	
Z Samsam	- attended 2 meetings	Appointed 25 February 2014

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.

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Directors' Report

13. PARENT

The company's parent 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.

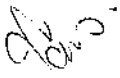
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Audited Annual Financial Statements for the year ended 30 June 2014

Certificate by Company Secretary for the year ended 30 June 2014

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 2014, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

PP 

G J Luden

Johannesburg Water SOC Limited
Company Secretary

Johannesburg
10 December 2014

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2014

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2014.

Audit committee responsibility

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

Assessment of the finance function

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

The effectiveness of internal controls

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

There were findings reported by the Auditor-General South Africa on Compliance and Performance Information. These were noted for appropriate corrective action to be taken by Management. The Committee needs to pay more attention on revenue and receivables concerns, compliance to supply chain management regulations and performance information.

Other than reported in the director's report, nothing has come to the attention of the committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The effectiveness of the internal audit function

The internal audit department executed and completed all projects included in the 2013/2014 internal audit plan. The plan was properly aligned to the risk register. The Committee is satisfied with the effectiveness of the internal audit function during the year, and accepts that the internal audit activity has to a large extent addressed the risks pertinent to Johannesburg Water.

In respect of action plans to address internal control deficiencies, timeous implementation remained a challenge as could be seen in the inadequate monitoring of the effectiveness of controls relating to revenue and receivables.

Performance reporting

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

Governance

Risk management

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

Legal compliance

The Audit Committee reviewed the organisation's compliance with legal and regulatory provisions and ensured that processes are in place to monitor the level of compliance to laws and regulations within the organisation. The area of supply chain management requires stronger focus to ensure full compliance.

Submission of quarterly reports in terms of the MFMA

The reliability and credibility of the financial and performance reports provided to support revenue management continues to be a challenge.

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Report of the Audit Committee

External Auditors

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

Matters raised by the Auditor-General in the previous year

Of the 31 issues raised by the Auditor-General South Africa in the 2012/13 management report, 11 (35%) were fully resolved, 11 (35%) were partially resolved and 9 (29%) were yet to be resolved as at 30 June 2014. The Audit Committee continues to monitor progress on the implementation of action plans to resolve the Auditor General South Africa's findings.

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2014

Report of the Audit Committee

External Auditors

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

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Financial Statements

The Audit Committee has reviewed the annual financial statements for the year ended 30 June 2014 and concurs with and accepts the Auditor-General South Africa's conclusion on the annual financial statements and is of the opinion that the audited financial statements should be accepted and read together with the Auditor-General South Africa's report. An area that requires improvement is the accuracy and completeness of financial and performance information relating to revenue and irregular expenditure.

Appreciation

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



K Mdtshane

Johannesburg Water (SOC) Limited
Chairperson of the Audit Committee

Johannesburg
10 December 2014

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Johannesburg Water SOC Limited set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

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

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide

Report of the Auditor General

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

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Water SOC Limited as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with South African standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of Johannesburg Water during the year ended 30 June 2014.

Material losses

9. As disclosed in note 23 to the financial statements, the municipal entity incurred material losses amounting to R1 160 000 000 (2012-13: R820 600 000) as a result of water distribution losses which represent 35.7% (2012-13:28.9%) of total water purchased. The total level of physical losses of water amounted to R308 600 000 (2012-13: R278 200 000). The total level of commercial losses amounted to R851 100 000 (2012-13: R542 300 000) and are mainly due to pipe bursts, deterioration of water infrastructure and unauthorised consumption.

Material impairments

10. As disclosed in note 11 to the financial statements, trade and other receivables were significantly impaired as the recoverability of these amounts is doubtful. The impairment of receivables amounts to R5 748 754 000 (2012-13: R5 322 618 000) which represents 75% (2012-13:76%) of consumer debtors.

Additional matters

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

Report of the Auditor General

Unaudited disclosure notes

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

Unaudited supplementary schedules

13. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Other reports required by the Companies Act

14. As part of our audit of the financial statements for the year ended 30 June 2014, I have read the Director's Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each sub-heading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2014:
- Objective 1: Increase customer services pp. xx – xx
 - Objective 2: Reduce service interruptions and ensure reliable services pp. xx - xx
 - Objective 3: Increase access to basic services pp. xx - xx
 - Objective 4: Contribute towards national development goals pp. xx - xx
 - Objective 5: Protect the environment pp. xx – xx
 - Objective 6: Improve financial ratios pp. xx – xx

17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPP)*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

Objective 4: Contribute towards national development goals

Usefulness of reported performance information

21. The FMPP requires that performance targets must be specific in clearly identifying the nature and required level of performance and that the period or deadline for delivery must be specified. Furthermore targets must be measurable. A total of 33% of the targets were not specific, time bound and measurable.

This was due to a lack of standard operating procedures and processes and a proper performance management system to support the measurability of targets.
22. I did not raise any material findings on the reliability of the reported performance information for objective 4: contribute towards national development goals.

Objective 1: Increase customer service

23. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective 1: increase customer service.

Objective 2: Reduce service interruptions and ensure reliable services

24. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective 2: reduce service interruptions and ensure reliable services.

Objective 3: Increase access to basic services

25. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective 3: increase access to basic services.

Objective 5: Protect the environment

26. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective 5: protect the environment

Report of the Auditor General

Objective 6: Improve financial ratios

27. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective 6: improve financial ratios

Additional matters

28. I draw attention to the following matters:

Achievement of planned targets

29. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness of the reported performance information in paragraphs 21 to 27 of this report.

Adjustment of material misstatements

30. I identified a material misstatement in the annual performance report submitted for auditing of the reported performance information for performance objective 3: increase access to basic services. As management subsequently corrected the misstatement, I did not raise material findings on the reliability of the reported performance information.

Compliance with legislation

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

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA. Material misstatements of revenue and receivables identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

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

Procurement and contract management

35. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Internal control

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

Leadership

37. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls and as a result there were significant findings on revenue and receivables and the management thereof, compliance with the supply chain management regulations and performance information.

Financial and performance management

38. Management did not adequately review and monitor compliance with applicable supply chain management legislation.
39. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information for performance information and revenue management.

Other reports

Investigations in progress

40. The internal audit unit is performing various investigations at the request of the accounting officer of the municipal entity. The investigations were initiated based on allegations of collusion, supply chain management irregularities and unauthorised sales of water meters.

Auditor - General

Johannesburg

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand thousand	Note(s)	2014	2013 Restated
ASSETS			
Current Assets			
Inventories	5	60 796	47 556
Loans to shareholder	7	212 130	277 661
Other receivables	10	13 459	12 437
Consumer debtors: Exchange transactions	11	1 910 795	1 702 457
Cash and cash equivalents	13	31	26
		2 197 211	2 040 137
Non-Current Assets			
Property, plant and equipment	3	7 685 619	6 757 279
Intangible assets	4	50 409	29 845
		7 736 028	6 787 124
Total Assets		9 933 239	8 827 261
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	22 768	11 559
Loans from shareholder	7	785 771	713 560
Finance lease obligation: Shareholder	8	2 364	1 783
Finance lease obligation: Other	9	1 504	1 641
Trade and other payables from exchange transactions	17	1 926 668	1 627 857
Provisions	18	18 101	15 080
		2 757 176	2 371 480
Non-Current Liabilities			
Loans from shareholder	7	2 648 152	2 460 548
Finance lease obligation: Shareholder	8	8 829	5 262
Finance lease obligation: Other	9	279	1 783
Retirement benefit obligation	15	90 174	94 340
Deferred income	16	-	499
		2 747 434	2 562 432
Total Liabilities		5 504 610	4 933 912
Net Assets		4 428 629	3 893 349
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		4 428 628	3 893 348
Total Net Assets		4 428 629	3 893 349

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2014	2013 Restated
Revenue from exchange transactions	20	6 435 720	5 853 992
Cost of sales		(3 248 444)	(2 839 333)
Gross surplus		3 187 276	3 014 659
Other income	21	222 574	325 192
Revenue from non-exchange transactions	22	308 424	379 565
Operating expenses		(2 965 205)	(2 699 468)
Operating surplus	24	753 069	1 019 948
Interest revenue	29	64 880	69 174
Finance costs	30	(282 669)	(295 087)
Surplus for the year		535 280	794 035

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Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2012 previously reported		1	3 091 179	3 091 180
Restatement	37		8 134	8 134
Balance at 01 July 2012 - restated		1	3 099 313	3 099 314
Surplus for the year - as restated			794 035	794 035
Balance at 01 July 2013 restated			3 893 348	3 893 348
Surplus for the year			535 280	535 280
Balance at 30 June 2014		1	4 428 628	4 428 629
Note(s)			14	

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand thousand	Note(s)	2014	2013 Restated
Cash flows from operating activities			
Receipts			
Cash receipts from customers		5 865 042	5 611 383
Interest revenue	29	64 880	69 174
		<u>5 929 922</u>	<u>5 680 557</u>
Payments			
Cash paid to suppliers and employees		(5 006 454)	(4 704 540)
Finance costs	30	(282 669)	(295 087)
		<u>(5 289 123)</u>	<u>(4 999 627)</u>
Net cash flows from operating activities	32	<u>640 799</u>	<u>680 930</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(952 875)	(742 276)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4&24	18	211
Purchase of intangible assets	4	(15 790)	(4 663)
Net cash flows from investing activities		<u>(968 647)</u>	<u>(746 728)</u>
Cash flows from financing activities			
Net movement in loans with shareholder	7	325 346	64 277
Net movement in Finance lease obligation: shareholder	8	4 148	146
Net movement in Finance lease obligation: other	9	(1 641)	1 375
Net cash flows from financing activities		<u>327 853</u>	<u>65 798</u>
Net increase/(decrease) in cash and cash equivalents		5	-
Cash and cash equivalents at the beginning of the year		26	26
Cash and cash equivalents at the end of the year	13	<u>31</u>	<u>26</u>

Johannesburg Water (SOC) Limited

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Performance

Revenue

Service charges	6 731 956	-	6 731 956	6 435 720	(296 236)	1
Other income	328 470	-	328 470	530 998	202 528	2
Total revenue	7 060 426	-	7 060 426	6 966 718	(93 708)	

Cost of sales

Bulk Purchases - Water	(3 023 923)	-	(3 023 923)	(3 248 444)	(224 521)	3
Gross margin	4 036 503	-	4 036 503	3 718 274	(318 229)	

Expenditure

Employee related costs	(714 419)	498	(713 921)	(741 162)	(27 241)	4
Contracted services	(571 633)	10 470	(561 163)	(548 218)	12 945	5
Consultants fees	(11 856)	-	(11 856)	(14 902)	(3 046)	6
General expenditure - other	(555 307)	20 000	(535 307)	(413 829)	121 478	7
Repairs and maintenance	(19 269)	5 000	(14 269)	(9 227)	5 042	8
Provision for bad debts	(504 874)	(124 685)	(629 559)	(1 075 110)	(445 551)	9
Depreciation	(224 643)	-	(224 643)	(162 757)	61 886	10
Total expenditure	(2 602 001)	(88 717)	(2 690 718)	(2 965 205)	(274 487)	

Surplus before interest

	1 434 502	(88 717)	1 345 785	753 069	(592 716)	
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Interest income

Interest income	-	70 000	70 000	64 880	(5 120)	11
Interest expense	(305 835)	18 717	(287 118)	(282 669)	4 449	12
	(305 835)	88 717	(217 118)	(217 789)	(671)	

Surplus for the year

	1 128 667	-	1 128 667	535 280	(593 387)	
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Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

1. The adverse variance in service charges of 4.40% is due to revenue which did not materialise.
2. The increase of 61.66% in other income is attributable to additional grant funding received from bulk services contributions (R46million), Developer funded assets (R147million) and other sundry income of R7million.
3. The excess expenditure of 7.42% in bulk water purchases is due to increased water demand. Volumes of water purchased increased by 4% compared to same period in previous year. The budget made provision for savings expected from various initiatives introduced by JW relating to water demand management which includes pressure management, Soweto Infrastructure Upgrade and Renewal Project and water mains replacement which only reached the stage of physical implementation in the beginning of this financial year. Although positive impact is made by the pressure management and Soweto infrastructure upgrade, the areas they are implemented in are looked at in isolation, the impact is still not visible overall due to the size of the implementation. Note that full impact of what is implemented now will only be seen in twelve months time.
4. Adverse variance of 3.82% in employee related costs is attributable to shortfall between the budgeted salary increase of 2.7% and the actual increase of 6.84% , provision for the additional 3% pension fund contribution as well as excess expenditure on overtime necessitated by service delivery. Staff retention for the year under review was 98.1%.
5. The under expenditure of 2.31% in contracted services is mainly attributable to delays in the implementation of the Ventilated Infrastructure Pitlatrine (VIP) contracts. Service providers were appointed later than expected and there were disruptions in project implementation due to contractor labour strikes.
6. Consultants utilised on capital projects that did not materialise, were expensed under the operating account as the cost could not be capitalised. This caused an over expenditure of 25.7% .
7. All efforts have been made to reduce unnecessary expenditure on general expenses in an attempt to reduce cost and to fund excess expenditure in other categories. Savings of 22.69% were made on inter alia electricity cost, telecommunication, marketing , advertising, rents and legal fees.
8. Repairs and maintenance is underspent by 35.35% due to under expenditure on maintenance to minor assets such as buildings and grounds and gardens. Expenditure only occurs as and when required.
9. Increased contribution to the bad debt provision of 70.77% is attributable to poor payment levels. The average payment level for the year is 82.9% against a revised budgeted payment level of 90.6%.
10. Depreciation is below budget by 27.55% due to slow capitalisation of assets. Assets are only capitalised and depreciated when commissioned for use.
11. The variance of 7.32% on interest charges on outstanding debtors is mainly attributable to the payment patterns of debtors.
12. Capex drawdowns were slower than expected during the financial year due to delays in the execution of capital projects, hence the saving of 1.55% in interest charges.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Position as at 30 June 2014

Assets

Current Assets

Inventories	49 221	950	50 171	60 796	10 625	1
Loans to shareholder	863 629	69 048	932 677	212 130	(720 547)	2
Trade receivables with group companies	162	(158)	4	7	3	
Other receivables	12 866	(154)	12 712	13 459	747	
Consumer debtors	1 874 628	(176 398)	1 698 230	1 910 795	212 565	3
Cash and cash equivalents	26	-	26	31	5	
	2 800 532	(106 712)	2 693 820	2 197 218	(496 602)	

Non-Current Assets

Property, plant and equipment	7 433 993	148 770	7 582 763	7 736 028	153 265	4
Total Assets	10 234 525	42 058	10 276 583	9 933 246	(343 337)	

Liabilities

Current Liabilities

Trade payables with group companies	5 743	6 341	12 084	22 775	10 691	5
Loans from shareholder	524 661	110 365	635 026	785 771	150 745	6
Finance lease obligation: Shareholder	-	3 492	3 492	2 364	(1 128)	
Finance lease obligation: Other	-	-	-	1 504	1 504	
Trade and other payables from exchange transactions	1 743 302	(351 240)	1 392 062	1 864 764	472 702	7
Provisions	71 075	3 530	74 605	80 005	5 400	8
	2 344 781	(227 512)	2 117 269	2 757 183	639 914	

Non-Current Liabilities

Loans from shareholder	2 313 388	711 100	3 024 488	2 648 151	(376 337)	9
Finance lease obligation: Shareholder	-	7 186	7 186	8 829	1 643	
Finance lease obligation: Other	-	-	-	279	279	
Deferred income	1 481	(982)	499	-	(499)	
Retirement benefit obligation	88 953	6 330	95 283	90 174	(5 109)	
	2 403 822	723 634	3 127 456	2 747 433	(380 023)	

Total Liabilities

	4 748 603	496 122	5 244 725	5 504 616	259 891	
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Net Assets

	5 485 922	(454 064)	5 031 858	4 428 630	(603 228)	
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Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
Net Assets						
Equity and Liabilities						
Contribution from shareholder	1	-	1	1	-	
Reserves						
Accumulated surplus	5 485 921	(454 064)	5 031 857	4 428 629	(603 228)	10
Total Net Assets	5 485 922	(454 064)	5 031 858	4 428 630	(603 228)	

1. The increase in inventory of 21% is due to pre-paid water meters being taken into stock.
2. The variance of 77% in loans to shareholders is due to the difference between the budgeted positive cash balance of R746 million and the actual positive cash position of R42 million at year end.
3. The variance of 13% in consumer debtors is attributable to the poor payment levels. The actual payment level was 82.9% versus a revised budgeted payment level of 90.6%.
4. The value of the PPE at 30 June 2014 exceeded the budget by R153 million - 2% mainly due to the capitalisation of developer funded assets of R147million not budgeted for.
5. The actual trade payables with group companies exceeds the budget by 88% mainly due to increased road reinstatements done by Johannesburg Roads Agency.
6. The adverse variance of 24% in current loans from shareholders is attributable to the increased value of the COJ creditors outstanding at the end of the period. Payments to COJ is withheld until such time that there is an improvement in the payment level.
7. The adverse variance of 34% in trade payables is attributable to increased operating expenses (bulk water purchases), delayed capital expenditure contributing to increased capex creditors at year-end and an increase in payments received in advance from debtors.
8. Budgeted provisions considered a higher level of leave utilisation than the actual leave taken hence the adverse variance of 7%.
9. The revised budget made provision for an additional external loan of R400 million which did not materialise resulting in a variance of 12% in loans from shareholder.
10. The adverse variance in accumulated surplus of 12% is attributable to a reduced profit of R528 million at 30 June 2014.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Cash Flow Statement

Cash flows from operating activities

Receipts

Cash receipts from customers	7 054 374	(65 424)	6 988 950	5 865 042	(1 123 908)	1
Interest revenue	70 000	-	70 000	64 880	(5 120)	
	7 124 374	(65 424)	7 058 950	5 929 922	(1 129 028)	

Payments

Cash paid to suppliers and employees	(5 519 059)	(577 315)	(6 096 374)	(5 006 454)	1 089 920	2
Finance costs	(305 836)	18 718	(287 118)	(282 669)	4 449	
	(5 824 895)	(558 597)	(6 383 492)	(5 289 123)	1 094 369	

Net cash flows from operating activities	1 299 479	(624 021)	675 458	640 799	(34 659)	
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Cash flows from investing activities

Purchase of property, plant and equipment	(1 104 287)	41 685	(1 062 602)	(952 875)	109 727	3
Proceeds from disposal of plant and equipment	-	-	-	18	18	
Purchase of intangible assets	-	-	-	(15 790)	(15 790)	
Net cash flows from investing activities	(1 104 287)	41 685	(1 062 602)	(968 647)	93 955	

Cash flows from financing activities

Net movement in loans from shareholder	(195 192)	582 336	387 144	325 346	(61 798)	
Net movement in finance lease obligation: Shareholder	-	-	-	4 148	4 148	
Net movement in finance lease obligation: Other	-	-	-	(1 641)	(1 641)	
Net cash flows from financing activities	(195 192)	582 336	387 144	327 853	(59 291)	

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Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
Net increase/(decrease) in cash and cash equivalents	-	-	-	5	5	
Cash and cash equivalents at the beginning of the year	26	-	26	26	-	
Cash and cash equivalents at the end of the year	26	-	26	31	5	

1. The actual receipts from customers are below budget by 16% due to revenue that did not materialise and poor collection levels. Collection levels for the 2013/2014 financial year was 82.9% versus a revised budget of 90.6%.
2. The variance of 18% in cash paid to suppliers is due to payments to creditors being less than budgeted. Payment to COJ creditors were withheld in anticipation of an improvement in the payment levels.
3. Delayed acquisitions on property, plant and equipment resulted in delayed cash outflows by 10%.

The approved adjusted budget 2013/2014, 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.

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Summary of Accounting Policies

1. Basis of preparation

The audited 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 or 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 is inherent in the formation of estimates. Significant judgements and estimation uncertainty includes:

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

The company's management determines the estimated useful lives and related depreciation charges for the waste water, water networks and other non-current assets. This estimate is based on 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 depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include a discount rate, rate of increase in employer post retirement medical contribution and expected increase in salaries. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appropriate discount rate at the end of each financial year is determined by 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.

Johannesburg Water (SOC) Limited

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Audited Annual Financial Statements for the year ended 30 June 2014

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for debt impairment of consumer debtors

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

Valuation of water stock

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

1.2 Property, plant and equipment

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

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

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

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

COST MODEL

Property, plant and equipment excluding land and capital work-in-progress, which is held for use in the production or supply of goods or services or for administrative purposes are stated in the Statement of Financial Position at cost less accumulated depreciation and any 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 cost 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 - 7 years
Furniture and Fixtures	5 - 12 years
Computer equipment	4 - 15 years
Motor vehicles	5 - 12 years

Johannesburg Water (SOC) Limited

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Summary of Accounting Policies

1.2 Property, plant and equipment (continued)

Laboratory equipment	2 - 7 years
Minor plant	5 - 10 years
Office equipment	5 - 12 years
Plant and machinery	10 - 40 years
Waste water and water networks	
• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 16 years
• Water meters	4 - 10 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 the 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 the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any and the carrying amount of the item.

1.3 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 company; and
- the cost or fair value of the asset can be measured reliably.

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

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 the derecognition of an item or intangible asset is included in the surplus or deficit when the item is derecognised. The surplus or deficit arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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

Item	Useful life
Computer software	3 - 6 years

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Audited Annual Financial Statements for the year ended 30 June 2014

Summary of Accounting Policies

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

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

Fair value determination

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

Loans and receivables

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

Payables from exchange transactions

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

Cash and cash equivalents

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

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Audited Annual Financial Statements for the year ended 30 June 2014

Summary of Accounting Policies

1.4 Financial instruments (continued)

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 current through to 89 days), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

Derecognition

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

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

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

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

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Summary of Accounting Policies

1.4 Financial instruments (continued)

Gains and losses for Financial Assets

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

Gains and losses for Financial Liabilities

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

1.5 Income Tax

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

1.6 Leases

Finance leases

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

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

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

Operating leases

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

The lease for motor vehicles is classified as an operating lease at inception. It is not straightlined 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 straightlining of this lease in accordance with GRAP 13.

1.7 Inventories

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

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

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

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

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Summary of Accounting Policies

1.7 Inventories (continued)

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

1.8 Impairment of non-financial assets

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

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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.

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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 July 2013 to June 2014 which is in alignment to the presentation of the financial statements reporting period.

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2. Statements and interpretations not yet effective

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

- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosure
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 108 - Statutory Receivables

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

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10 367	-	10 367	10 367	-	10 367
Buildings	351 601	(224 238)	127 363	313 840	(215 607)	98 233
Plant and machinery	1 518 345	(481 588)	1 036 757	1 473 410	(437 530)	1 035 880
Furniture and fixtures	15 711	(8 908)	6 803	15 511	(9 161)	6 350
Motor vehicles	14 776	(4 025)	10 751	9 015	(2 238)	6 777
Office equipment	20 056	(11 640)	8 416	20 028	(9 026)	11 002
Computer equipment	57 742	(36 875)	20 867	55 363	(35 193)	20 170
Capital work in progress	1 862 071	-	1 862 071	1 299 498	-	1 299 498
Communication equipment	15 216	(11 523)	3 693	13 637	(10 633)	3 004
Laboratory equipment	36 230	(20 644)	15 586	34 838	(17 921)	16 917
Minor plant	59 419	(45 119)	14 300	58 245	(41 848)	16 397
Wastewater network	1 773 149	(166 303)	1 606 846	1 659 946	(148 052)	1 511 894
Water network	3 377 515	(415 716)	2 961 799	3 078 663	(357 873)	2 720 790
Total	9 112 198	(1 426 579)	7 685 619	8 042 361	(1 285 082)	6 757 279

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Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Foreign exchange movements	Depreciation	Impairment loss	Total
Land	10 367	-	-	-	-	-	-	10 367
Buildings	98 233	37 971	(325)	230	-	(8 746)	-	127 363
Plant and machinery	1 035 880	3 311	-	41 624	-	(43 950)	(108)	1 036 757
Furniture and fixtures	6 350	1 738	(124)	134	-	(1 295)	-	6 803
Motor vehicles	6 777	5 760	-	-	-	(1 786)	-	10 751
Office equipment	11 002	684	(13)	23	-	(3 280)	-	8 416
Computer equipment	20 170	6 849	(279)	2 570	-	(8 443)	-	20 867
Capital work in progress	1 299 498	685 408	(540)	(122 295)	-	-	-	1 862 071
Communication equipment	3 004	1 634	(12)	-	-	(933)	-	3 693
Laboratory Equipment	16 917	2 477	(27)	-	-	(3 781)	-	15 586
Minor plant	16 397	1 666	(11)	135	-	(3 887)	-	14 300
Wastewater network	1 511 894	14 817	-	15 740	82 646	(18 251)	-	1 606 846
Water network	2 720 790	190 560	(2 359)	46 870	64 043	(58 105)	-	2 961 799
	6 757 279	952 875	(3 690)	(14 969)	146 689	(152 457)	(108)	7 685 619

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Figures in Rand thousand

3. Property, plant and equipment (continued)

Land and buildings

Land and buildings to the value of R 137,730 (2013: R 108,600) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

Capital work in progress

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

Plant and Machinery	R 943,963
Water network	R 751,181
Wastewater network	R 116,525
Other	R 50,402

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.

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Foreign exchange movements	Depreciation	Impairment loss	Total
Land	10 367	-	-	-	-	-	-	10 367
Buildings	68 262	13 006	-	24 136	-	(7 171)	-	98 233
Plant and machinery	980 397	8 856	-	92 474	-	(45 847)	-	1 035 880
Furniture and fixtures	5 455	2 103	-	2	-	(1 210)	-	6 350
Motor vehicles	6 897	1 466	-	-	-	(1 586)	-	6 777
Office equipment	10 572	3 404	(11)	-	-	(2 963)	-	11 002
Computer equipment	22 543	3 528	(155)	2 479	-	(8 225)	-	20 170
Capital work in progress	821 622	635 251	-	(157 375)	-	-	-	1 299 498
Communication equipment	3 387	567	-	-	-	(950)	-	3 004
Laboratory Equipment	7 374	6 192	-	6 178	-	(2 827)	-	16 917
Minor plant	17 723	3 132	(2)	249	-	(4 705)	-	16 397
Wastewater network	1 365 029	10 806	(213)	15 998	141 740	(17 634)	(3 832)	1 511 894
Water network	2 662 251	53 965	(14 686)	18 272	61 488	(56 827)	(3 673)	2 720 790
	5 981 879	742 276	(15 067)	2 413	203 228	(149 945)	(7 505)	6 757 279

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Figures in Rand thousand

3. Property, plant and equipment (continued)

Capital work in progress

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

Plant and Machinery	R 782,226
Water network	R 432,185
Wastewater network	R 49,713
Other	R 35,374

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.

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3. Property, plant and equipment (continued)

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

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4 932	(3 267)	1 665	4 932	(1 625)	3 307
Motor vehicles	14 525	(3 825)	10 700	8 766	(2 065)	6 701
Total	19 457	(7 092)	12 365	13 698	(3 690)	10 008

4. Intangible assets

	2014			2013		
	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	75 571	(26 889)	48 682	62 194	(34 076)	28 118
Total	77 298	(26 889)	50 409	63 921	(34 076)	29 845

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1 727	-	-	-	1 727
Computer software	28 118	15 790	14 969	(10 195)	48 682
	29 845	15 790	14 969	(10 195)	50 409

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1 727	-	-	-	1 727
Computer software	34 830	4 663	(2 413)	(8 962)	28 118
	36 557	4 663	(2 413)	(8 962)	29 845

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Figures in Rand thousand	2014	2013
5. Inventories		
Material, components and fuel	51 664	39 304
Water	10 749	9 803
Subtotal	62 413	49 107
Provision for inventory write downs	(1 617)	(1 551)
	60 796	47 556

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

6. Trade receivables and (payables) with group companies

Fellow subsidiaries

Johannesburg City Parks NPC	(351)	(482)
Johannesburg Roads Agency SOC Ltd	(21 594)	(11 077)
Johannesburg Social Housing Company SOC Ltd	(115)	-
Pikitup Johannesburg SOC Ltd	(708)	-
	(22 768)	(11 559)

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

Credit quality of trade receivables with group companies

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

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

Trade receivables with group companies past due but not impaired

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

30 days past due	2	-
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Notes to the Audited Financial Statements

Figures in Rand thousand 2014 2013

7. Loans to/(from) shareholder

City of Johannesburg Metropolitan Municipality - Other loans	(316 915)	(306 434)
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(2 857 052)	(2 542 724)
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	44 471	29 872
City of Johannesburg Metropolitan Municipality - Post retirement benefit	72 004	75 216
City of Johannesburg Metropolitan Municipality - Capex drawdown	53 648	99 844
City of Johannesburg Metropolitan Municipality - Sweeping account	42 007	72 729
City of Johannesburg Metropolitan Municipality - Shareholder loans	(259 956)	(324 950)
	(3 221 793)	(2 896 447)

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

Current assets	212 130	277 661
Non-current liabilities	(2 648 152)	(2 460 548)
Current liabilities (including short term portion of long term loans)	(785 771)	(713 560)
	(3 221 793)	(2 896 447)

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 2014, R 5 (2013: R3,723) were past due but not impaired.

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

30 days past due	-	318
60 days past due	-	1 296
90 days past due	5	-
120 days past due	-	1 954
180 days past due	-	155

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(2 542 724)	(2 521 056)
New loans	(676 279)	(342 238)
Repayments	361 904	320 570
Interest accrued	47	-
Balance at end of year	(2 857 052)	(2 542 724)

Conduit loans are repayable in equal quarterly installments over a period of 10 years from loan acquisition. These unsecured loans bear interest at a fixed rate of 9,31% to 10,9% (2013: 9,31% to 10,9%).

FDA 1 (Caylon) is repayable in equal quarterly installments 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 5,38% for the current financial year (2013: 4,78%)

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 (2013: 7,4% and 7,47%)

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

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(324 950)	(389 945)
Repayments	64 995	64 995
Balance at the end of the year	(259 955)	(324 950)

The unsecured loans bear interest at a nominal annual rate of 14,5% to 15% (2013: 14,5% to 15%) compounded monthly and are repayable in equal quarterly installments over a period of 10 years. The quarterly capital repayments commenced in 2009.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	42 007	72 729
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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 5,73% (2013: 7,17%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due

- within one year	3 372	2 511
- in second to fifth year	9 517	6 045
- later than five years	1 280	176
	14 169	8 732
less: Future finance charges	(2 976)	(1 687)
Present value of minimum lease payments	11 193	7 045

Non current liabilities	8 829	5 262
Current liabilities	2 364	1 783
	11 193	7 045

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

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Figures in Rand thousand	2014	2013
9. Finance lease obligation: Other		
Minimum lease payments due		
- within one year	1 592	1 858
- in second to fifth year	287	1 879
- later than five years	-	-
	<u>1 879</u>	<u>3 737</u>
less: Future finance charges	(96)	(313)
Present value of minimum lease payments	<u>1 783</u>	<u>3 424</u>
Non current liabilities	279	1 783
Current liabilities	1 504	1 641
	<u>1 783</u>	<u>3 424</u>

Interest on finance leases are calculated at variable rates of interest, ranging between 7.41% and 8.5% per annum, and repayments on the lease arrangements are made quarterly. The lease terms are over a period of three years. The carrying value of the finance leased assets are included in Property, plant and equipment, under Office equipment. Refer note 3 for further information

10. Other receivables

Sundry Debtor	16 415	15 595
Allowance for impairment	(2 956)	(3 158)
Total other receivables	<u>13 459</u>	<u>12 437</u>

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

Credit quality of other receivables

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

Other receivables past due but not impaired

At 30 June 2014 R 9 (2013: R 0) was past due but not impaired.

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

30 days past due	9	-
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Other receivables impaired

As of 30 June 2014, other receivables of R 16,415 (2013: R 15,595) were considered for impairment testing. The allowance for impairment losses was R2,956 as of 30 June 2014 (2013: R3,158).

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

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10. Other receivables (continued)		
Current	13 450	12 522
1 - 30 days	9	-
31 - 60 days	-	81
61 - 90 days	1	-
91 - 120 days	21	57
> 365 days	2 934	2 935
Total other receivables	16 415	15 595
Reconciliation of allowance for impairment of other receivables		
Opening balance	3 158	3 893
Allowance for impairment losses	27	536
Reversed during the year	(229)	(1 271)
	2 956	3 158

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.

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11. Consumer debtors: Exchange transactions		
Trade receivables	7 659 549	7 025 076
Allowance for impairment	(5 748 754)	(5 322 618)
	1 910 795	1 702 457

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

Extensive investigative work performed prior to 2004 in order to inform the direction of the company turnaround strategy identified that the deemed consumption areas were largely responsible not only for the high outstanding debtors, but also the higher than benchmark unaccounted for water level. The level of unaccounted for water for the year under review is 35.7% (2013: 28.9%). The metered areas are considered to be within accepted norms, whilst the problem area has been identified as being the deemed consumption environment.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing 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	253 134	257 206
30 days	308 186	198 309
31 - 60 days	188 935	210 550
61 - 90 days	181 620	140 121
91 - 120 days	146 640	162 564
121 - 365 days	1 148 044	766 549
> 365 days	2 549 758	2 654 966
	4 776 317	4 390 265
Less: Allowance for impairment	(3 937 629)	(3 584 079)
	838 688	806 186

Domestic consumers - Past due and impaired

Current (0 - 30 days)	(25 313)	-
30 days	(30 819)	-
31 - 60 days	(18 893)	-
61 - 90 days	(18 162)	-
91 - 120 days	(146 640)	(162 564)
121 - 365 days	(1 148 044)	(766 549)
> 365 days	(2 549 758)	(2 654 966)
	(3 937 629)	(3 584 079)

Domestic consumers - Current, past due and not impaired

Current	227 821	257 206
30 days	277 367	198 309
31 - 60 days	170 042	210 550
61 - 90 days	163 458	140 121
	838 688	806 186

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11. Consumer debtors: Exchange transactions (continued)

Commercial consumers

Current	608 682	391 286
30 days	182 275	119 131
31 - 60 days	122 320	109 622
61 - 90 days	87 569	86 688
91 - 120 days	64 264	79 848
121 - 365 days	482 075	337 944
> 365 days	1 105 066	1 279 829
	<u>2 652 251</u>	<u>2 404 348</u>
Less: Allowance for impairment	(1 635 179)	(1 564 454)
	<u>1 017 072</u>	<u>839 894</u>

Commercial consumers - Past due and impaired

91 - 120 days	(62 356)	(54 397)
121 - 365 days	(467 757)	(230 228)
> 365 days	(1 105 066)	(1 279 829)
	<u>(1 635 179)</u>	<u>(1 564 454)</u>

Commercial consumers - Current, past due and not impaired

Current	608 682	391 286
30 days	182 275	119 131
31 - 60 days	122 320	109 622
61 - 90 days	87 569	86 688
91 - 120 days	1 908	25 451
121-365 days	14 318	107 716
	<u>1 017 072</u>	<u>839 894</u>

National and provincial government

Current	18 050	19 272
30 days	16 400	15 657
31 - 60 days	10 595	12 731
61 - 90 days	9 990	8 717
91 - 120 days	9 118	12 526
121 - 365 days	55 661	47 774
> 365 days	111 167	113 785
	<u>230 981</u>	<u>230 462</u>
Less: Allowance for impairment	(175 946)	(174 085)
	<u>55 035</u>	<u>56 377</u>

National and provincial government - Past due and impaired

91 - 120 days	(9 118)	(12 526)
121 - 365 days	(55 661)	(47 774)
> 365 days	(111 167)	(113 785)
	<u>(175 946)</u>	<u>(174 085)</u>

National and provincial government - Current, past due and not impaired

Current	18 050	19 272
30 days	16 400	15 657
31 - 60 days	10 595	12 731
61 - 90 days	9 990	8 717
	<u>55 035</u>	<u>56 377</u>

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11. Consumer debtors: Exchange transactions (continued)

Total consumer debtors

Current	879 866	667 764
30 days	506 861	333 097
31 - 60 days	321 850	332 903
61 - 90 days	279 179	235 526
91 - 120 days	220 022	254 938
121 - 365 days	1 685 780	1 152 267
> 365 days	3 765 991	4 048 580
	<u>7 659 549</u>	<u>7 025 075</u>
Less: Allowance for impairment	(5 748 754)	(5 322 618)
	<u>1 910 795</u>	<u>1 702 457</u>

Total consumer debtors - Past due and impaired

Current (0 - 30 days)	(25 313)	-
30 days	(30 819)	-
31 - 60 days	(18 893)	-
61 - 90 days	(18 162)	-
91 - 120 days	(218 114)	(229 487)
121 - 365 days	(1 671 462)	(1 044 551)
> 365 days	(3 765 991)	(4 048 580)
	<u>(5 748 754)</u>	<u>(5 322 618)</u>

Total consumer debtors - Current, past due but not impaired

Current	854 553	667 764
30 days	476 042	333 097
31 - 60 days	302 957	332 903
61 - 90 days	261 017	235 526
91 - 120 days	1 908	25 451
121 - 365 days	14 318	107 716
	<u>1 910 795</u>	<u>1 702 457</u>

Reconciliation of allowance for impairment

Balance at beginning of the year	(5 322 618)	(5 360 647)
Contributions to allowance	(1 128 194)	(946 153)
Debt impairment written off against allowance	702 058	984 182
	<u>(5 748 754)</u>	<u>(5 322 618)</u>

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12. Financial assets by category

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

2014

	Loans and receivable	Other	Total
Consumer debtors	1 910 795	-	1 910 795
Other receivables	8 668	-	8 668
Prepayments	-	4 791	4 791
Total Other Receivables	8 668	4 791	13 459
Loans to shareholder	212 130	-	212 130
Cash	31	-	31
	2 131 624	4 791	2 136 415

2013

	Loans and receivable	Other	Total
Consumer debtors	1 702 457	-	1 702 457
Other receivables	2 899	-	2 899
Prepayments	-	9 538	9 538
Total Other Receivables	2 899	9 538	12 437
Loans to shareholder	277 661	-	277 661
Cash	26	-	26
	1 983 043	9 538	1 992 581

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	31	26
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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 2014 is R42,007 million (2013: R72,729 million).

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Figures in Rand thousand			2014	2013
13. Cash and cash equivalents (continued)				
Bank	Account Type	Account number		
Absa	Expenditure	4054394786	-	-
Absa	Revenue	4054394809	-	-
Absa	Salaries	4054394817	-	-
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000196819	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			<hr/>	<hr/>
			-	-
			<hr/>	<hr/>
14. Contribution from shareholder				
Authorised				
1000 Ordinary shares of R1 each			1	1
			<hr/>	<hr/>
Issued				
200 Ordinary shares of R1 each			1	1
			<hr/>	<hr/>

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Figures in Rand thousand 2014 2013

15. Retirement benefit obligations

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

Post-retirement liability

Provision:Post-Retirement Medical Obligation	15.1	31 020	32 673
Provision:Post-Retirement Housing Subsidy obligation	15.2	51	54
Provision:Post-Retirement Gratuity Obligation	15.3	59 103	61 613
Balance at end of year		90 174	94 340

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 17 employees (2013: 27 employees), and 43 continuation members (2013: 40 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

Opening balance	32 673	33 491
Benefits paid	(1 346)	(1 445)
Current service costs	479	192
Interest costs	2 531	2 864
Actuarial gain	(3 317)	(2 429)
Balance at end of year	31 020	32 673

Key assumptions used

Assumptions used on last valuation on 30 June 2014.

Discount rates used	8.94 %	7.89 %
Expected increase in salaries	8.05 %	6.67 %

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	29,806	31,020	31,930
Percentage change	-3.91%	0%	2.93%

Post Retirement Mortality

	-20%	0%	20%
20% adjustment to mortality rate	33,262	31,020	29,181
Percentage change	7.23%	0%	-5.92%

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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 4 employees (2013: 6 employees), and 1 continuation member (2013: 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

Opening balance	54	113
Current service costs	2	4
Interest costs	4	10
Benefits Paid	(3)	-
Actuarial gain	(6)	(73)
Balance at end of year	51	54

Key assumptions used

Assumptions used on last valuation on 30 June 2014.

Discount rates used	8.94 %	7.89 %
Expected increase in salaries	8.05 %	6.67 %

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

Change in assumptions

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

	-1%	0%	1%
Liability	49	51	54
Percentage change	-3.92%	0%	5.88%

Post Retirement Mortality

	-20%	0%	20%
20% adjustment to mortality rate	52	51	50
Percentage change	1.96%	0%	-1.96%

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15. Retirement benefit obligations (continued)

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 343 employees (2013: 378 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

Opening balance	61 613	53 596
Benefits paid	(6 825)	(4 402)
Interest Cost	4 659	4 586
Actuarial loss / (gain)	(344)	7 833
Balance at end of year	59 103	61 613

Key assumptions used

Assumptions used on last valuation on 30 June 2014.

Discount rates used	8.94 %	7.89 %
Expected increase in salaries	8.05 %	6.67 %

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	55,297	59,103	63,259
Percentage change	-6.44%	0%	7.03%
Post Retirement Mortality			
20% adjustment to mortality rate	59,061	59,103	59,145
Percentage change	-0.07%	0%	0.07%

15.4 Net expense recognised in the statement of financial performance

Post retirement medical aid plan	1 653	818
Post retirement housing subsidy plan	3	59
Post retirement gratuity plan	2 510	(8 017)
Total included in employee related costs	4 166	(7 140)

15.5 Defined contribution plan

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

The total company contribution to such schemes	52 783	51 982
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16. Deferred income

Unspent conditional grants comprise:

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Government grants

- 499

Government grants movement during the year

Balance at the beginning of the year

499 1 481

Received in current year

307 925 378 583

Utilised during the year

(308 424) (379 565)

Balance at the end of the year

- 499

17. Trade and other payables from exchange transactions

Trade payables

965 498 723 846

Payments received in advanced

490 027 362 935

Accrued leave pay

41 892 39 385

Accrued bonus

20 012 18 677

Operating lease payables

19 115 19 047

Sundry payables

12 976 19 164

VAT

176 049 227 202

Consumer deposits

201 099 217 601

1 926 668 1 627 857

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

18. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	15 080	18 101	(13 941)	(1 139)	18 101

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	13 800	15 080	(13 607)	(193)	15 080

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19. Financial liabilities by category

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

2014

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1 251 198	-	1 251 198
South African Revenue Services	-	185 210	185 210
Customer Prepayments	-	490 260	490 260
Trade and other payables from exchange transactions	1 251 198	675 470	1 926 668
Trade payables with group companies	22 768	-	22 768
Loans from Shareholder	3 433 923	-	3 433 923
Finance lease obligation: Shareholder	11 193	-	11 193
Finance lease obligation: Other	1 783	-	1 783
Provisions	-	18 101	18 101
	4 720 865	693 571	5 414 436

2013

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1 028 054	-	1 028 054
South African Revenue Services	-	235 501	235 501
Customer Prepayments	-	364 302	364 302
Trade and other payables from exchange transactions	1 028 054	599 803	1 627 857
Trade payables with group companies	11 559	-	11 559
Loans from Shareholder	3 174 108	-	3 174 108
Finance lease obligation: Shareholder	7 045	-	7 045
Finance lease obligation: Other	3 424	-	3 424
Provisions	-	15 080	15 080
	4 224 190	614 883	4 839 073

20. Revenue from exchange transactions

Sale of water	4 142 989	3 960 971
Rendering of sanitation services	2 292 731	1 893 021
	6 435 720	5 853 992

21. Other income

Other income	8 406	79 280
Laboratory income	997	1 235
Developer funded asset income	146 689	203 228
Bulk service contributions released	66 482	41 449
	222 574	325 192

22. Revenue from non-exchange transactions

Government grants released	308 424	379 565
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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 35,7% [R1,160 billion], (2013: 28,9% [R0,820 billion]). The level of physical losses for the year under review is 9,5% [R308,6 million], (2013: 9,8% [R278,2 million]). The level of commercial losses for the year under review is 26,20% [R851,1 million], (2013: 19,1% [R542,3 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 17,7% [R575,0 million], (2013: 10,9% [R309,5 million]). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

Please refer to note 11 for additional information.

24. Expenses by nature

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

Operating lease charges - Contractual amounts

Premises		28 573	27 940
Motor vehicles		85 984	81 131
Equipment		879	1 662
		115 436	110 733

Operating expenses

Allowance for debt impairment	26	1 075 110	909 879
Employee costs	28	739 581	699 073
Electricity and chemicals	27	164 088	185 219
Billing and meter reading charges		185 452	174 625
Depreciation, amortisation and impairments		162 757	166 413
Consumables		110 738	89 964
Security		27 505	24 448
Loss on disposal of property, plant and equipment		3 672	14 856
Insurance		8 757	10 063
Repairs and maintenance		9 227	8 244
Legal expenses		1 612	1 425

25. Auditors remuneration

Fees		3 993	3 755
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26. Allowance for impairment (Bad debts)

Allowance for impairment		1 075 110	909 879
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27. Electricity and Chemicals

Electricity		134 800	159 243
Chemicals		29 288	25 976
		164 088	185 219

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28. Employee costs		
Basic salaries	523 636	481 996
Other allowances	92 416	81 088
Pension costs	60 086	69 706
Medical aid - company contributions	45 158	40 844
Leave pay	11 608	10 104
Post retirement benefit plan cost (Defined contribution plan)	4 009	12 987
Housing benefits and allowances	2 668	2 348
	739 581	699 073
Average number of employees employed during the year		
- Permanent	2 501	2 436
29. Interest revenue		
Interest earned - sweeping account	2 683	2 899
Interest on impaired accounts	62 197	66 275
	64 880	69 174
30. Finance costs		
Interest paid - Shareholder loans and Finance leases	282 669	295 087
31. Taxation		
As the company is a water service provider it has been exempt from normal company taxation in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962, published in the Government Gazette.		
32. Cash generated from operations		
Surplus	535 280	794 035
Adjustments for:		
Depreciation, amortisation and impairments	3&4 162 757	166 413
Allowance for impairment	26 1 075 110	909 879
Movements in retirement benefit assets and liabilities	15 (4 166)	7 140
Movements in provisions	18 3 021	1 280
Loss/(profit) on disposal of property, plant and equipment	24 3 673	14 856
Developer funded asset income	3 (146 689)	(203 228)
Changes in working capital:		
Inventories	5 (13 240)	(3 333)
Other receivables	10 (1 022)	(3 990)
Consumer debtors	11&26 (1 283 448)	(1 183 503)
Trade and other payables from exchange transactions	17 298 814	175 913
Unspent conditional grants	16 (499)	(982)
Trade payables in group companies	6 11 208	6 450
	640 799	680 930

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33. Commitments

Authorised capital expenditure

Already contracted for but not provided for

Property, plant and equipment 873 676 1 150 214

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:

Shareholder loans	579 198	800 080
Grant funding	291 387	341 737
Internal cash	3 091	8 397
	873 676	1 150 214

Operating leases - as lessee

Minimum lease payments due

• within one year	30 236	26 349
• in second to fifth year inclusive	77 356	87 297
• later than five years	16 629	33 426
	124 221	147 072

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

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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 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
The Johannesburg Zoo NPC

Members of key management

Directors' emoluments and other Key Management Personnel Remuneration - Note 35

Other related parties

There were no related party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

Related party balances

Loan amounts owing to related parties

City of Johannesburg Metropolitan Municipality - Net current liabilities	104 785	28 773
City of Johannesburg Metropolitan Municipality - long term loans	2 648 151	2 460 548
Finance lease obligation: Shareholder	11 193	7 045
Short term portion of long term loans	468 856	407 126
	3 232 985	2 903 492

Related party balances

Amounts owing by related parties

City of Johannesburg Metropolitan Municipality - General	306 603	103 331
Johannesburg City Parks NPC	2	-
Johannesburg Roads Agency SOC Ltd - General	5	4
	306 610	103 335

Amounts owing to related parties (excluding long term liabilities)

City of Johannesburg Metropolitan Municipality	891 437	539 229
Johannesburg Social Housing Company SOC Ltd	115	-
Pikitup Johannesburg SOC Ltd	708	-
Johannesburg City Parks NPC	353	482
Johannesburg Roads Agency SOC Ltd	21 599	11 081
	914 212	550 792

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34. Related parties (continued)		
Related party transactions		
Sales to related parties		
City of Johannesburg Metropolitan Municipality	1 479	1 168
Pikitup Johannesburg SOC Ltd	157	384
Johannesburg City Parks NPC	9	-
Johannesburg Roads Agency SOC Ltd	24	19
	1 669	1 571
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(263 757)	(286 026)
Johannesburg Social Housing Company SOC Ltd	(1 325)	(2 105)
Pikitup Johannesburg SOC Ltd	(708)	-
City Power Johannesburg SOC Ltd	(151)	-
Johannesburg Metrobus	(11)	-
Johannesburg City Parks NPC	(310)	(856)
Johannesburg Roads Agency SOC Ltd	(19 995)	(20 233)
	(286 257)	(309 220)
Interest on shareholder loans and sweeping account		
Interest earned on sweeping account	2 682	2 899
Interest paid on shareholder loans	(292 922)	(300 115)
	(290 240)	(297 216)

All transactions with group companies are conducted at arms length.

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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

2014	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
L. Dhlamini - Managing Director	1 425	90	358	201	2 074
B Shongwe - Financial Director	324	-	14	47	385
M. Padiaychee - Retired Financial Director	-	79	-	-	79
	1 749	169	372	248	2 538
2013	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
L. Dhlamini - Managing Director	939	-	269	136	1 344
M. Padiaychee - Financial Director	1 376	209	-	198	1 783
	2 315	209	269	334	3 127

Non executive directors

Services rendered as director of company

G Simelane	88	-
N Govender	181	124
J Manche	47	-
J Mateya	210	257
C Mbili	38	161
K Mdutshane	105	-
G Moloi	119	144
C Motau	101	82
N Msezane	147	120
N Skeepers	211	147
C Tilly	100	175
	1 347	1 210

Services rendered as independent members of audit committee

R Buys	95	71
K Mdutshane	51	78
V Mokwena	69	78
Z Samsam	38	-
	253	227

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

Senior Management

2014	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	1 267	67	-	162	1 496
J M Methula	707	43	162	78	990
N J Mukwevho	1 308	78	184	185	1 755
G J Luden	999	24	-	244	1 267
E. Chikonyora	853	42	-	36	931
D Tshabalala	864	-	7	59	930
	5 998	254	353	764	7 369
2013	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	1 185	177	-	154	1 516
J M Methula	623	62	162	71	918
N J Mukwevho	1 216	104	176	171	1 667
E. Chikonyora	799	110	-	34	943
D Tshabalala	147	-	31	23	201
G Luden	976	35	-	212	1 223
	4 946	488	369	665	6 468

36. Comparatives restated

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

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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 2012 and 2013 financial years, as well as recalculated the impact of meters that have not been read for greater than twelve months. The combination of these transactions results in an adjustment to revenue for the 2012 and 2013 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2013	2012 Cumulative
Impact on Statement of Financial Position		
(Decrease)/Increase in Consumer debtors: Exchange transactions	(17 977)	8 134
Impact on Statement of Financial Performance		
(Decrease)/Increase in Revenue from exchange transactions	(17 977)	8 134
Impact on Statement of Changes in Net Assets		
(Decrease)/Increase in net surplus for the year	(17 977)	8 134

37.2 Cumulative Impact on Statement of Changes in Net Assets

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

	2013	2012 Cumulative
Impact on Statement of Changes in Net Assets		
(Decrease)/Increase in net surplus for the year	(17 977)	8 134

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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 ongoing review of future commitments and credit facilities.

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

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	1 175 085	703 502	1 694 204	1 152 619
Finance lease obligation: Shareholder	2 364	2 238	5 377	1 214
Finance lease obligation: Other	1 504	279	-	-
Trade payables with group companies	22 768	-	-	-
Trade and other payables from exchange transactions	1 251 198	-	-	-
At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	815 431	653 382	1 640 941	1 026 956
Finance lease obligation: Shareholder	1 782	1 644	3 447	172
Finance lease obligation: Other	1 641	1 504	279	-
Trade payables with group companies	11 559	-	-	-
Trade and other payables from exchange transactions	1 028 054	-	-	-

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		
Bank sweeping (+1%)	5.73%	420	727
Bank sweeping (-1%)		(420)	(727)
Shareholder loan (Jibar linked) (+1%)	7.47%	6 752	7 528
Shareholder loan (Jibar linked) (-1%)		(6 752)	(7 528)

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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 ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note 12.

39. Unauthorised, fruitless and wasteful expenditure

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

40. Deviations from formal procurement processes

Product Category

	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Emergencies	9 441	9 289	18 730
Sole Suppliers	49 456	14 686	64 142
Impracticality	70 829	35 747	106 576
	129 726	59 722	189 448

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 R189.4 million (2012/13: R244.6 million) for the period under review indicates a 22.6% year on year improvement.

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41. Irregular expenditure

Reconciliation of irregular expenditure

Opening Balance	-	-
Irregular expenditure current year	12 238	-
Condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
Total	12 238	-

Expenditure amounting to R7,4 million has been incurred as a result of transactions that impacted some awards in the supply chain management processes, in that transactions that was not in accordance with the requirements of the Preferential Procurement Regulations which require that no points be awarded for BBBEE status if a bidder or supplier did not submit an original and valid BBBEE Status Level verification certificate or certified copy, as well as tax clearance certificates which were not originals. BBBEE points were however awarded to these suppliers, who submitted copies that were not original or certified. There was no financial loss or legal implications from this action.

Furthermore, it was noted that expenditure amounting to R4,8 million was incurred as a result of transactions that impacted some awards that were made to suppliers who had provided tax clearance certificates that were neither original nor certified as well as those who had supplied expired certificates at the closing date of the tender rendering the documentation invalid.

The irregular expenditure identified and disclosed above is potentially incomplete as the entire supply chain management awards population has not been considered by the organisation in quantifying the amounts. The amount disclosed above is however as per the external audit findings raised on the matter.

Analysis of expenditure awaiting condonation per age classification

Current year	12 238	-
Prior years	-	-

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	
Preferential points were awarded to suppliers who submitted BBBEE scorecards that were not original or certified, but reliance was placed on verification agencies that were accredited by South African National Accreditation System.	The matter is currently under investigation.	7 423
Awards to providers who submitted tax clearance certificates that were neither original nor certified as well as those who had supplied expired certificates at the closing date of the tender rendering the documentation invalid.	The matter is currently under investigation.	4 815
Total		12 238

Details of irregular expenditure not recoverable (not condoned)

Preferential points were awarded to suppliers who submitted BBBEE scorecards that were not original or certified, but reliance was placed on verification agencies that were accredited by South African National Accreditation System. This also included awards to providers who submitted tax clearance certificates that were not originals as required.	12 238
The expenditure has not been condoned by any authority in the company, since such action that relates to non-compliance with a regulation issued in terms of the Municipal Finance Management Act may only be condoned by National Treasury.	

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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 the year	1 020 283	762 232
Actual spend for the year	(1 010 394)	(741 950)
	9 889	20 282

Actual spend as a percentage of budget	99.0 %	97.3 %
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Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	316 813	375 000	691 813	676 278	(15 535)
Own Funding	395 500	(375 000)	20 500	26 191	5 691
Grants and subsidies	307 970	-	307 970	307 925	(45)
	1 020 283	-	1 020 283	1 010 394	(9 889)

43. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	129	-
Current year fee	3 993	3 755
Amount paid - current year	(3 965)	(3 626)
Amount paid - previous years	(129)	-
	28	129

PAYE and UIF

Opening balance	8 299	6 946
Current year contributions	(115 826)	102 501
Amount paid - current year	116 688	(101 148)
	9 161	8 299

Pension and Medical Aid Contributions

Current year contributions	162 059	149 203
Amount paid - current year	(162 059)	(149 203)
	-	-