

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand thousand

2010

2009
(restated)

33. RELATED PARTIES

Relationships

Parent

City of Johannesburg Metropolitan Municipality

Other members of the group

City of Johannesburg Property Company (Pty) Ltd
City Power Johannesburg (Pty) Ltd
Johannesburg City Parks
Johannesburg Development Agency (Pty) Ltd
Johannesburg Metropolitan Bus Services (Pty) Ltd
Johannesburg Roads Agency (Pty) Ltd
Johannesburg Social Housing Company (Pty) Ltd
Metropolitan Trading Company (Pty) Ltd
Pikitup Johannesburg (Pty) Ltd
The Johannesburg Civic Theatre (Pty) Ltd
The Johannesburg Fresh Produce Market (Pty) Ltd
The Johannesburg Zoo

Members of key management

Directors' emoluments and other Key Management Personnel Remuneration - Note 34

Other related parties

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

Related party balances

Loan accounts - Owing by related parties

City of Johannesburg Metropolitan Municipality

399,037

399,430

Loan accounts - owing to related parties

City of Johannesburg Metropolitan Municipality

2,067,227

2,014,117

Short term portion of long term loans

328,496

278,462

2,395,723

2,292,579

Related party balances

Amounts owing by related parties

City of Johannesburg Metropolitan Municipality - General

470,620

407,157

Pikitup Johannesburg (Pty) Ltd - General

164

94

Pikitup Johannesburg (Pty) Ltd - Trade receivables

-

57

City Power Johannesburg (Pty) Ltd - Trade receivables

-

132

The Johannesburg Zoo - General

-

3

The Johannesburg Zoo - Trade receivables

-

361

Metropolitan Trading Company (Pty) Ltd - Trade receivables

-

567

The Johannesburg Civic Theatre (Pty) Ltd - Trade receivables

-

55

Johannesburg City Parks - Trade receivables

-

5,786

Johannesburg Roads Agency (Pty) Ltd - General

4

6

470,788

414,218

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33. RELATED PARTIES (continued)

Amounts owing to related parties (excluding long term liabilities)

City of Johannesburg Metropolitan Municipality	400,079	286,189
City of Johannesburg Metropolitan Municipality - Trade receivables	-	614
Pikitup Johannesburg (Pty) Ltd	-	275
City Power Johannesburg (Pty) Ltd	-	231
Johannesburg City Parks	615	359
Johannesburg Development Agency (Pty) Ltd	-	39
Johannesburg Roads Agency (Pty) Ltd	5,296	6,594
Johannesburg Roads Agency (Pty) Ltd - Trade receivables	-	1
	405,990	294,302

Related party transactions

Sales to related parties

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

Purchases from related parties

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

All transactions with group companies are conducted at arms length.

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34. DIRECTORS' EMOLUMENTS AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION

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

Executive directors

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
G Dumas - Managing director	1,307	139	330	177	1,953
M Padiaychee - Financial director	941	96	144	152	1,333
	2,248	235	474	329	3,286
2009	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
G Dumas - Managing director	1,204	727	330	169	2,430
M Padiaychee - Financial director	877	157	144	135	1,313
	2,081	884	474	304	3,743

Non executive directors

Services rendered as director of company

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

Services rendered as member of committee

C Mbili	18	52
A Seedat	-	19
IB Skosana	-	-
Mr J Behr	51	15
Ms M Malope	64	15
	133	101

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34. DIRECTORS' EMOLUMENTS AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Senior Management

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	758	82	182	136	1,158
L Jiya	711	86	200	-	997
E Chikonyora	510	8	132	51	701
C O R Montoeli	111	123	25	17	276
	2,090	299	539	204	3,132
2009	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	627	117	182	128	1,054
V E Roos	506	-	20	17	543
L Jiya	600	71	200	-	871
L Ganzin	125	-	56	25	206
C O R Montoeli	571	97	150	93	911
	2,429	285	608	263	3,585

35. COMPARATIVES RESTATED

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

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36. PRIOR YEAR ADJUSTMENTS

36.1 Deferred income (Government grants)

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

	2009	2008
Impact on Statement of Financial Position		
Decrease in deferred income	(37,732)	(528,636)
Impact on Statement of Financial Performance		
Increase in revenue from non-exchange transactions	37,732	528,636
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	37,732	528,636

36.2 Deferred income (Bulk service contributions)

There was a change in the accounting policy for the treatment of Bulk Service Contributions (refer note 43). The new accounting policy requires the contribution to be recognised as income in the year that it has been received. This has resulted in R10,666 being released to the statement of financial performance in the prior financial years. The financial impact of the revised treatment for the year ending 30 June 2010 is a credit of R5,335 to other income, and the impact on the prior years is as follows:

	2009	2008
Impact on Statement of Financial Position		
Increase/(decrease) in deferred income	69,851	(80,517)
Impact on Statement of Financial Performance		
Increase/(decrease) in other income	(69,851)	80,517
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	(69,851)	80,517

36.3 Provision for Performance Bonus

The company historically accounted for bonuses in the period that the bonus was paid. During the current year, the company took a decision to account for the Provision for Bonuses in the period that the constructive obligation arises. This was applied on a retrospective basis. This has resulted in an accumulated charge of R10,217 to equity in prior financial years.

The impact on prior years is summarised as follows:

	2009	2008
Impact on Statement of Financial Position		
Increase/(decrease) in trade and other payables	(8,477)	18,693
Impact on Statement of Financial Performance		
(Increase)/decrease in operating expenditure	8,477	(18,693)
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	8,477	(18,693)

36.4 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:

	2009	2008
Impact on Statement of Changes in Net Assets		
	(23,642)	590,460

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37. RISK MANAGEMENT

Financial risk management

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

Liquidity risk

The company's risk to liquidity is a result of the funds 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 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	588,961	563,885	1,360,501	950,998
Trade payables with group companies	5,744	-	-	-
Trade and other payables from exchange transactions	742,571	-	-	-

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

Interest rate risk

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

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

Sensitivity analysis for interest rate risk

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

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37. RISK MANAGEMENT (continued)

Credit risk

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

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

38. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

There were no irregular, fruitless and wasteful expenditure during the current and comparative years.

39. ACTUAL OPERATING EXPENDITURE VERSUS BUDGETED OPERATING EXPENDITURE

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

40. ACTUAL CAPITAL EXPENDITURE VERSUS BUDGETED CAPITAL EXPENDITURE

Refer to Annexure B for the comparison of actual capital expenditure versus budgeted expenditure per source of funding.

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

41. ACTUAL SURPLUS VERSUS BUDGETED SURPLUS

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

Actual surplus for the year	163,992	138,929
Budget surplus for the year	(156,307)	(157,418)
	7,685	(18,489)

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42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Audit fees

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

PAYE and UIF

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

Pension and Medical Aid Contributions

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

43. CHANGES IN ACCOUNTING POLICY

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

Items adopted that require no change in accounting policy:

- GRAP 4 The effects of changes in foreign exchange rates
- GRAP 6 Consolidated and separate financial statements
- GRAP 7 Investments in associates
- GRAP 8 Interest in joint ventures
- GRAP 9 Revenue from exchange transactions
- GRAP 10 Financial reporting in hyperinflationary economies
- GRAP 11 Construction contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the reporting date
- GRAP 16 Investment property
- GRAP 17 Property plant and equipment
- GRAP 19 Provisions, contingent liabilities and contingent assets
- GRAP 100 Non-current assets held for sale and discontinued operations
- GRAP 101 Agriculture
- GRAP 102 Intangible assets
- IGRAP 1 Applying the probability test on initial recognition of exchange revenue

Items adopted that require a change in accounting policy:

GRAP 5 - Borrowing Costs

The previous policy was to expense all borrowing costs as these costs are incurred. In terms of GRAP 5, borrowing costs relating to the construction of qualifying assets will now be capitalised. This policy is adopted prospectively in accordance with the transitional provisions.

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43. CHANGES IN ACCOUNTING POLICY (continued)

The new accounting policy is as follows:

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

Revenue from Non-Exchange Transactions

The previous accounting policy, based on International Accounting Standard 20 (IAS 20), for government grants was as follows:

"Capital grants are recorded as deferred income when they become receivable and are recognised as income on a systematic basis over the periods necessary to match grants with the related costs, which they are intended to compensate. Capital grants on property, plant and equipment are credited on a straight-line basis to the Statement of Financial Performance based on the estimated useful life of the relevant property, plant and equipment.

The following accounting policy is adopted:

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

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

Bulk Service Contributions

The previous accounting policy was to recognise income in full on condition that the contribution received was utilised in terms of the imposed conditions.

The following accounting policy is adopted:

Bulk Service Contributions received are recognised as other income in the periods that the contributions are received.

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

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Annexure A - Operating budget vs Actual expenditure

	Original Budget	Budget Adjustment	Final Budget	Actual	Variance	Variance %
Revenue	4,125,647	-	4,125,647	3,982,283	(143,364)	(3.47%)
Service charges	4,125,647	-	4,125,647	3,982,283	(143,364)	(3.47%)
Cost of sales	(1,778,657)	-	(1,778,657)	(1,779,677)	(1,020)	(0.06%)
Bulk purchases - water	(1,778,657)	-	(1,778,657)	(1,779,677)	(1,020)	(0.06%)
Gross margin	2,346,990	-	2,346,990	2,202,607	(144,383)	(6.15%)
Gross margin %	56.9%		56.9%	55.3%		
Other income	88,460	-	88,460	243,599	155,139	175.38%
Other revenue	88,460	-	88,460	243,599	155,139	175.38%
Expenditure	(2,038,348)	26,718	(2,011,630)	(2,034,596)	(22,967)	(1.14%)
Employee related costs	(682,642)	39,929	(642,712)	(596,356)	46,356	7.21%
Contracted services	(349,274)	3,745	(345,529)	(308,786)	36,742	10.63%
Consultancy fees	(10,843)	4,252	(6,591)	(5,128)	1,463	22.20%
General expenses - other	(344,470)	6,945	(337,525)	(329,965)	7,559	2.24%
Repairs and maintenance	(13,964)	5,180	(8,784)	(9,178)	(394)	(4.48%)
Depreciation	(189,732)	-	(189,732)	(164,880)	24,852	13.10%
Provision for bad debts	(447,423)	(33,334)	(480,757)	(620,302)	(139,545)	(29.03%)
Surplus before interest	397,103	26,718	423,820	411,609	(12,211)	(2.88%)
Net interest	(267,513)	-	(267,513)	(247,852)	19,661	7.35%
Interest income	5,000		5,000	19,804	14,804	296.07%
Interest expense	(272,513)	-	(272,513)	(267,656)	4,857	1.78%
Surplus before effective interest rate adjustment	129,590	26,718	156,307	163,757	7,450	4.77%
Net effective interest rate adjustment	9,415	(9,415)		235	235	
Surplus for the year	139,005	17,303	156,307	163,992	7,685	4.92%

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Annexure B - Capital expenditure - Actual vs Budget

Figures in Rand thousand

	Original Budget	Budget Adjustmen ts	Final Budget	Actual	Variance	Variance %
Loans	519,000	(114,000)	405,000	402,890	(2,110)	(0.52%)
Own Funding		40,000	40,000	27,596	(12,404)	(31.01%)
Grants and subsidies	104,557	1,300	105,857	114,468	8,611	8.13%
Bulk service contributions	66,500	(40,000)	26,500	26,479	(21)	0.08%
Total for the year	690,057	(112,700)	577,357	571,433	(5,924)	(1.03%)

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Detailed Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Revenue	19	3,960,752	3,664,962
Cost of sales		(1,769,720)	(1,644,447)
Gross surplus		2,191,032	2,020,515
Other income	20	128,857	108,712
Revenue from non-exchange transactions	21	114,743	105,422
Expenses (Refer to page 60)		(2,031,396)	(1,899,778)
Operating surplus		403,236	334,871
Interest revenue	27	19,804	43,671
Effective interest rate adjustment	28	8,608	13,461
Finance costs	29	(267,656)	(253,074)
Surplus for the year		163,992	138,929

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Detailed Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Operating expenses			
Allowance for debt impairment	24	(620,302)	(495,481)
Auditors remuneration	23	(4,105)	(3,020)
Bank charges		(334)	(477)
Billing and meter reading charges		(62,179)	(58,449)
Bulk purchases	25	(124,133)	(95,808)
Commission paid		(5,646)	(4,906)
Computer expenses		(9,274)	(11,038)
Consumables		(73,812)	(67,216)
Contracted services		(180,117)	(302,659)
Depreciation, amortisation and impairments		(164,880)	(146,507)
Employee costs	26	(596,356)	(528,826)
Entertainment		(952)	(615)
General operating expenses		(20,040)	(19,894)
IT expenses		(1,315)	(1,570)
Insurance		(9,530)	(8,388)
Lease rentals on operating lease		(88,264)	(87,689)
Legal expenses		(5,114)	(4,730)
Marketing and promotions		(10,217)	(11,589)
Motor vehicle expenses		(3,102)	(3,787)
Printing and stationery		(4,280)	(5,477)
Repairs and maintenance		(9,126)	(7,643)
Security		(18,984)	(18,325)
Subscriptions		(505)	(573)
Telephone and fax		(17,226)	(13,848)
Travel - local and overseas		(1,603)	(1,263)
		(2,031,396)	(1,899,778)