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Johannesburg Water SOC Limited  
Audited Annual Financial Statements  
for the year ended 30 June 2013

The preparation of these annual financial statements were supervised by:  
J Koekemoer (Acting Chief Financial Officer)

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## General Information

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<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
<b>Directors</b>	G Moli (Chairperson) L Dhlamini (Managing Director) N Govender J Mateya C Mbili C Motau M Msezane N Skeepers C Tilly
<b>Registered office</b>	17 Harrison Street Marshalltown Johannesburg 2107
<b>Business address</b>	17 Harrison Street Marshalltown Johannesburg 2107
<b>Postal address</b>	P. O. Box 61542 Marshalltown Johannesburg 2107
<b>Controlling entity</b>	City of Johannesburg Metropolitan Municipality
<b>Bankers</b>	Standard Bank of South Africa Limited
<b>Auditors</b>	The Auditor-General South Africa
<b>Secretary</b>	G J Luden
<b>Company registration number</b>	2000/029271/07
<b>Attorneys</b>	Moodie and Robertson

# Johannesburg Water SOC Limited

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# Johannesburg Water SOC Limited

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## Directors' Responsibilities and Approval

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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 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.

In terms of the project initiated by the City of Johannesburg Metropolitan Municipality during 2006, certain core functions that were previously managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated were the customer call centre function and the management of the billing and credit control functions in respect of customers that were previously managed by the company. The information technology platform for billing was changed from Venus to SAP.

Subsequent to the implementation of the project, the company now 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 functions as it relates to this project 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.

# **Johannesburg Water SOC Limited**

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## **Directors' Responsibilities and Approval**

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The directors have reviewed the company's cash flow forecast for the year to 30 June 2014 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.

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

The audited financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the directors on 27 November 2013 and were signed on their behalf by:

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**G Moloi (Chairperson)**

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**L Dhlamini (Managing Director)**

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Directors' Report

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The directors submit their report for the year ended 30 June 2013.

### 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 812,0 million (2012: R 364,5 million). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962 as amended. There is consequently no taxation effect.

### 3. GOING CONCERN

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

### 4. DIRECTORS' INTEREST IN CONTRACTS

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

### 5. ACCOUNTING POLICIES

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

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Directors' Report

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### 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 2013, 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 Moloi (Chairperson)	South African	
L Dhlamini (Managing Director)	South African	Appointed 1 October 2012
M Padiaychee (Financial Director)	South African	Retired 30 June 2013
N Govender	South African	
J Mateya	South African	
C Mbili	South African	
C Motau	South African	
M Msezane	South African	
N Skeepers	South African	
C Tilly	South African	
I Jacobs	South African	Retired 23 March 2013

### 11. SECRETARY

The secretary of the company is G J Luden.

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Directors' Report

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### 12. CORPORATE GOVERNANCE

#### 12.1. General

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

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

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

#### 12.2. Board of directors

The board:

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

#### 12.3. Chairperson and Managing Director

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

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Directors' Report

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### 12.4. Executive meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum. In addition, 3 meetings were scheduled in relation to the nomination of a new financial director.

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	Nomination committee	Social and ethics committee	Total meetings
Total number of meetings held	5	7	10	4	4	3	2	35
G Moloi (Chairperson)	4	-	-	1	-	2	-	7
L Dhlamini (Managing Director)	4	4	7	3	3	3	2	26
M Padiaychee (Financial Director)	5	6	10	4	3	3	1	32
N Govender	5	5	-	-	2	2	-	14
J Mateya	5	1	10	-	4	3	-	23
C Mbili	3	7	-	-	3	-	-	13
C Motau	4	-	-	4	-	-	-	8
M Msezane	3	-	9	-	-	-	2	14
N Skeepers	5	-	-	3	3	2	2	15
C Tilly	5	1	8	-	-	3	2	19

### 12.5. Audit committee

C Mbili serves as chairperson of the audit committee. The committee met 7 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:

K Mdutshane	- attended 7 meetings
R Buys	- attended 6 meetings
V Mokwena	- attended 6 meetings

### 12.6. Internal audit

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

# **Johannesburg Water SOC Limited**

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## **Directors' Report**

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### **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**

Amalgamated Banks of South Africa Limited (ABSA) served as the company's bankers until October 2012 and was replaced by The Standard Bank of South Africa limited.

### **16. AUDITORS**

The Auditor-General 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.

## **Johannesburg Water SOC Limited**

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Audited Annual Financial Statements for the year ended 30 June 2013

### **Certificate by Company Secretary for the year ended 30 June 2013**

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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 2013, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

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G J Luden

Johannesburg Water SOC Limited  
Company Secretary

Johannesburg  
27 November 2013

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Report of the Audit Committee

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We are pleased to present our report for the financial year ended 30 June 2013 as recommended by the King III Report on Corporate Governance and Regulation 27 of the Treasury Regulations. The Audit Committee performs its functions in accordance with section 94 of the Companies Act of South Africa, Act 71 of 2008, and has adopted appropriate formal terms of reference in its Audit Committee Charter and has regulated its affairs in compliance with this Charter. The Audit Committee has discharged all its responsibilities as contained therein.

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

- the effectiveness of the internal control systems;
- the risk areas of the entity's operations covered in the scope of internal and external audits;
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- accounting and auditing concerns identified as a result of internal and external audits;
- the entity's compliance with legal and regulatory provisions;
- the effectiveness of the internal audit department;
- the activities of the audit department, including its annual work programme, co-ordination with external auditors, the reports of significant investigations and the responses of management to specific recommendations;
- the independence and objectivity of the external auditors;
- the entity's non-financial performance as set out in the Business Plan.

In terms of reporting on fruitless and wasteful expenditure, the company complied by completing returns to the parent municipality on a regular basis. For the year under review, there was no fruitless and wasteful expenditure.

The Financial Director applied himself well and has managed the Company's finances to the satisfaction of the Committee.

The position of the Chief Internal Auditor was vacant for the first nine months of the year. The position was filled in an acting capacity during the year which was considered appropriate. The company has appointed a permanent Chief Internal Auditor, Ms D.M. Tshabalala with effect from 8 April 2013.

The Committee is of the opinion, based on the information and explanations given by management, internal audit department and discussion with the independent external auditors on the results of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained.

Having considered the matters set out in section 94(8) of the Companies Act of South Africa, Act 71 of 2008 as amended by the Company Law Amendment Act, the Committee is satisfied with the independence and objectivity of the external auditors.

Nothing significant, other than reported in the director's report, 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 Audit Committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

The Audit Committee has reviewed the annual financial statements for the year ended 30 June 2013 and considers that it complies, in all material respects, with the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, and the Standards of Generally Recognised Accounting Practices.

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**C. Mbili**

**Johannesburg Water SOC Limited  
Chairperson of the Audit Committee**

**Johannesburg  
27 November 2013**

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL  
LEGISLATURE AND THE COUNCIL OF THE CITY OF JOHANNESBURG  
METROPOLITAN MUNICIPALITY ON THE JOHANNESBURG WATER SOC LTD**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the financial statements of the Johannesburg Water Soc Ltd set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, and 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 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 a basis for my unqualified audit opinion.

**Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Water SOC Ltd as at 30 June 2013, 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.

# Report of the Auditor General

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## **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 2012 have been restated as a result of errors discovered during the year ended 30 June 2013 in the financial statements of Johannesburg Water SOC LTD at, and for the year ended 30 June 2012.

## **Material losses**

9. As disclosed in note 23 to the financial statements, material losses amounting to R820 600 000 (2012: R769 300 000) were incurred as a result of water distribution losses, which represent 28.9% (2012: 31.2%) of total water available for sale.
10. The total level of physical losses of water amounted to R389 004 152, (2012: R374 806 920). The total level of commercial losses amounted to R431 595 847, (2012: R511 100 346) and are due to non-metering of water and unauthorised consumption.

## **Material impairment**

11. As disclosed in note 11 to the financial statements, material impairments to the amount of R5 322 618 000 (2012: R5 360 647 000) representing 76% (2012: 79%) of consumer debtors were incurred, as the recoverability of these amounts are doubtful.

## **Additional Matters**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

## **Unaudited supplementary schedules**

13. The supplementary information set out on pages ... to ... 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 2013, I have read the Directors' 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 relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## **Predetermined objectives**

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the

# Report of the Auditor General

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overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matter**

19. Although no material findings concerning the usefulness and reliability of the performance report were identified, I draw attention to the following matter below:

#### **Achievement of planned targets**

20. Of the total number of 24 targets planned for the year, 9 of the targets were not achieved during the year under the review. This represents 37% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

#### **Compliance with laws and regulations**

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

#### **Annual financial statements**

22. 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 in respect of revenue, receivables, interest on overdue accounts and capital commitments were identified by the auditors in the submitted financial statements and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Revenue management**

23. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 64(2) (e) of the MFMA.
24. Revenue received was not always reconciled on a weekly basis, as required by section 64(2) of the MFMA.

#### **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

# Report of the Auditor General

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## Financial and performance management

26. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
47. Non-compliance with laws and regulations could have been prevented had compliance with laws and regulations been properly reviewed, monitored and addressed in a timely manner.

Johannesburg

30 November 2013



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

*Auditing to build public confidence*

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand thousand	Note(s)	2013	2012 Restated
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	5	47 556	44 223
Trade receivables with group companies	6	-	143
Loans to shareholder	7	277 661	145 127
Other receivables	10	12 437	8 447
Consumer debtors: Exchange transactions	11	1 712 300	1 420 699
Cash and cash equivalents	13	26	26
		<b>2 049 980</b>	<b>1 618 665</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	6 757 279	5 981 879
Intangible assets	4	29 845	36 557
		<b>6 787 124</b>	<b>6 018 436</b>
<b>Total Assets</b>		<b>8 837 104</b>	<b>7 637 101</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade payables with group companies	6	11 559	5 254
Loans from shareholder	7	713 560	436 525
Finance lease obligation: Shareholder	8	1 783	1 286
Finance lease obligation: Other	9	1 641	712
Trade and other payables from exchange transactions	17	1 627 857	1 451 941
Provisions	18	15 080	13 800
		<b>2 371 480</b>	<b>1 909 518</b>
<b>Non-Current Liabilities</b>			
Loans from shareholders	7	2 460 548	2 540 772
Finance lease obligation: Shareholder	8	5 262	5 613
Finance lease obligation: Other	9	1 783	1 337
Retirement benefit obligation	15	94 340	87 200
Unspent conditional grants	16	499	1 481
		<b>2 562 432</b>	<b>2 636 403</b>
<b>Total Liabilities</b>		<b>4 933 912</b>	<b>4 545 921</b>
<b>Net Assets</b>		<b>3 903 192</b>	<b>3 091 180</b>
<b>NET ASSETS</b>			
Contribution from shareholder	14	1	1
Accumulated surplus		3 903 191	3 091 179
<b>Total Net Assets</b>		<b>3 903 192</b>	<b>3 091 180</b>

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand thousand	Note(s)	2013	2012 Restated
Revenue from exchange transactions	20	5 871 969	5 146 507
Cost of sales		(2 839 333)	(2 465 733)
<b>Gross surplus</b>		<b>3 032 636</b>	<b>2 680 774</b>
Other income	21	325 192	262 195
Revenue from non-exchange transactions	22	379 565	219 563
Operating expenses		(2 699 468)	(2 548 846)
<b>Operating surplus</b>	24	<b>1 037 925</b>	<b>613 686</b>
Interest revenue	29	69 174	57 545
Finance costs	30	(295 087)	(306 726)
<b>Surplus for the year</b>		<b>812 012</b>	<b>364 505</b>

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2011 previously reported		1	3 000 490	3 000 491
Restatement	37		(273 816)	(273 816)
<b>Balance at 01 July 2011 - restated</b>		<b>1</b>	<b>2 726 674</b>	<b>2 726 675</b>
Surplus for the year - as restated			364 505	364 505
<b>Balance at 01 July 2012 restated</b>		<b>1</b>	<b>3 091 179</b>	<b>3 091 180</b>
Surplus for the year			812 012	812 012
<b>Balance at 30 June 2013</b>		<b>1</b>	<b>3 903 191</b>	<b>3 903 192</b>
Note(s)			14	

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand thousand

	Note(s)	2013	2012 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Cash receipts from customers		5 611 383	4 917 219
Interest revenue	29	69 174	57 545
		<u>5 680 557</u>	<u>4 974 764</u>
<b>Payments</b>			
Cash paid to suppliers and employees		(4 704 540)	(4 171 764)
Finance costs	30	(295 087)	(306 726)
		<u>(4 999 627)</u>	<u>(4 478 490)</u>
<b>Net cash flows from operating activities</b>	32	<b><u>680 930</u></b>	<b><u>496 274</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(742 276)	(543 450)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4&21	211	1 868
Purchase of intangible assets	4	(4 663)	(8 755)
<b>Net cash flows from investing activities</b>		<b><u>(746 728)</u></b>	<b><u>(550 337)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net movement in loans with shareholder	7	64 277	45 116
Net movement in Finance lease obligation: shareholder		146	6 899
Net movement in Finance lease obligation: other		1 375	2 049
<b>Net cash flows from financing activities</b>		<b><u>65 798</u></b>	<b><u>54 064</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>-</b>	<b>1</b>
Cash and cash equivalents at the beginning of the year		26	25
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>26</u></b>	<b><u>26</u></b>

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

### Statement of Financial Position

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance	Variance %	Comment
<b>ASSETS</b>							
<b>Non-Current Assets</b>	6 243 084	395 270	6 638 354	6 787 124	148 770	2%	
Property, plant and equipment	6 243 084	395 270	6 638 354	6 787 124	148 770	2%	The actual PPE exceeded budget mainly due to an increased value of developer funded assets being capitalised
<b>Current Assets</b>	1 910 074	467 872	2 377 946	1 875 654	-502 292	-21%	
Inventories	46 712	-57	46 655	47 556	901	2%	
Trade receivables with group companies	491	-336	155	4	-151	-97%	
Loans to shareholder	498 820	-70 580	428 230	103 331	-324 899	-76%	The actual amount is less than budget partly due to the cash balance being R171 million below the forecasted amount. The balance was reduced by inter-company cash owed to CoJ not budgeted for.
Other receivables	13 181	-567	12 614	12 437	-177	-1%	
Consumer debtors: Exchange transactions	1 350 845	539 422	1 890 267	1 712 300	-177 967	-9%	The net decrease in debtors balance is partly due to lower than budgeted revenue and a reduction in payment levels
Cash and cash equivalents	26	-	26	26	-	0%	
<b>TOTAL ASSETS</b>	<b>8 153 158</b>	<b>863 142</b>	<b>9 016 301</b>	<b>8 662 778</b>	<b>-353 522</b>	<b>-4%</b>	
<b>EQUITY AND LIABILITIES</b>							
<b>EQUITY</b>	3 978 228	379 026	4 357 254	3 903 192	-454 062	-10%	
Contribution from shareholder	1	-	1	1	-	100%	
Accumulated surplus	3 978 228	379 026	4 357 254	3 903 191	-454 063	-10%	The accumulated surplus is mainly below budget due to the reduction in revenue and increased bad debt provisions
<b>LIABILITIES</b>	2 620 330	-51 459	2 568 870	2 562 433	-6 438	0%	
Non-Current Liabilities	1 884 979	-48 018	1 836 961	1 818 185	-18 776	-1%	
Loans from shareholder			5 262	5 262			
Finance lease obligation: Shareholder			1 783	1 783			
Finance lease obligation: Other	642 357	-	642 357	642 364	6	0%	
External loans	87 392	679	88 071	94 340	6 269	7%	
Retirement benefit obligation	5 501	-4 120	1 381	499	-882	-66%	
Unspent conditional grants							
<b>Current Liabilities</b>	1 554 599	535 576	2 090 175	2 197 163	106 977	5%	
Trade payables with group companies	7 093	-1 597	5 496	11 562	6 066	110%	
Short term portion of shareholder loans	490 383	-31 059	459 284	539 229	79 946	17%	
Finance lease obligation: Shareholder			1 783	1 783			
Finance lease obligation: Other			1 641	1 641			
Trade and other payables from exchange transactions	993 470	562 244	1 555 714	1 569 795	14 081	1%	
Provisions	63 653	6 028	69 681	73 142	3 461	5%	
<b>TOTAL LIABILITIES</b>	<b>4 174 929</b>	<b>484 117</b>	<b>4 659 045</b>	<b>4 759 586</b>	<b>100 539</b>	<b>2%</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8 153 158</b>	<b>863 143</b>	<b>9 016 300</b>	<b>8 662 778</b>	<b>-353 522</b>	<b>-4%</b>	
	1	-1	0	0	-0	-0	

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

### Statement of Financial Performance

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance f(u)	Variance %	Comment
<b>Revenue</b>	<b>6 079 541</b>	-	<b>6 079 541</b>	<b>5 871 969</b>	<b>(207 572)</b>	<b>(3.41%)</b>	
Service charges	6 079 541	-	6 079 541	5 871 969	(207 572)	(3.41%)	Revenue is low due to large credits that were passed during the financial year
<b>Cost of sales</b>	<b>(2 768 425)</b>	-	<b>(2 768 425)</b>	<b>(2 839 333)</b>	<b>(70 908)</b>	<b>(2.56%)</b>	
Bulk Purchases - Water	(2 768 425)	-	(2 768 425)	(2 839 333)	(70 908)	(2.56%)	Water purchases exceeded budget due to higher demand from customers and development/organic growth in the Johannesburg area. Volumes increased by 14% in comparison to the previous financial year. There was also a large increase in commercial water losses.
Gross margin	3 311 116	-	3 311 116	3 032 636	(278 480)	(8.41%)	
Gross margin %	54.5%		54.5%	51.6%			
<b>Other income</b>	<b>340 632</b>	<b>139 285</b>	<b>479 917</b>	<b>704 757</b>	<b>224 840</b>	<b>46.85%</b>	
Other revenue	340 632	139 285	479 917	704 757	224 840	46.85%	Developer funded assets actually capitalised exceeded the revised budget by R115m. Prescribed credit balances of R72 m on customer accounts were written back to the Income Statement. Bulk services contributions (grant funding) also recognised as other revenue exceeded the budget by R20m
<b>Expenditure</b>	<b>(2 811 545)</b>	<b>36 327</b>	<b>(2 775 218)</b>	<b>(2 699 469)</b>	<b>75 749</b>	<b>2.73%</b>	
Employee related costs	(676 085)	(19 000)	(695 085)	(700 510)	(5 425)	(0.78%)	
Contracted services	(603 430)	116 327	(487 103)	(476 042)	11 061	2.27%	
Consultants fees	(11 810)	-	(11 810)	(10 960)	850	7.20%	
General expenses - Other	(499 583)	-	(499 583)	(427 420)	72 163	14.44%	General expenses is below budget mainly due to savings on electricity and chemicals due to efficiencies in the processes at the wastewater treatment plants.
Repairs and maintenance	(12 719)	-	(12 719)	(8 244)	4 474	35.18%	The requirement for maintenance to minor assets such as buildings and electrical installation were less than originally anticipated. Expenditure is incurred only on an as and when required basis.
Depreciation	(215 524)	-	(215 524)	(186 413)	49 111	22.79%	Depreciation is below budget due to the slow rate of capitalisation of assets. Assets are only capitalised and depreciated once commissioned for use.
Provision for bad debts	(792 394)	(61 000)	(853 394)	(909 879)	(56 485)	(6.62%)	Debt impairment exceeded budget as a result of low payment levels throughout the financial year. The average payment level for the company is 78.7% against an adjusted budgeted payment level of 87.1%.
<b>Surplus before interest</b>	<b>840 203</b>	<b>175 612</b>	<b>1 015 815</b>	<b>1 037 924</b>	<b>22 109</b>	<b>2.18%</b>	
<b>Net interest &amp; other</b>	<b>(239 038)</b>	-	<b>(239 038)</b>	<b>(225 913)</b>	<b>13 125</b>	<b>5.49%</b>	
Interest income	70 000	-	70 000	69 174	(826)		
Interest expense	(309 038)	-	(309 038)	(295 087)	13 951	4.51%	
<b>Surplus/(Loss) for the year</b>	<b>601 166</b>	<b>175 612</b>	<b>776 778</b>	<b>812 012</b>	<b>35 234</b>	<b>4.54%</b>	

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

### Cash Flow Statement

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance	Variance %	Comment
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
<b>Receipts</b>							
Cash receipts from customers	6 117 146	-71 630	6 045 516	5 611 383	434 133	7%	Actual receipts are below budget due to the reduction in service revenue billed and reduction in payment levels
Interest revenue	-	-	-	69 174	-69 174	0%	
<b>Payments</b>	6 117 146	-71 630	6 045 516	5 660 557	384 959	6%	Increase in trade creditors at year end as well as inter-company amounts due to the CoJ
Cash paid to suppliers and employees	-5 195 759	-4 128	-5 199 887	-4 704 540	-495 347	10%	
Finance costs	-309 038	-	-309 038	-295 087	-13 951	5%	
	-5 504 797	-4 128	-5 508 925	-4 999 627	-509 298	9%	
<b>Net cash flows from operating activities</b>	<b>612 349</b>	<b>-75 758</b>	<b>536 591</b>	<b>680 930</b>	<b>-144 339</b>	<b>-27%</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Purchase of plant and equipment	-787 184	60 844	-726 340	-742 276	15 936	-2%	
Proceeds from disposal of plant and equipment	-	-	-	211	-211	0%	
Purchase of intangible assets	-	-	-	-4 663	4 663	0%	
<b>Net cash flows from investing activities</b>	<b>-787 184</b>	<b>60 844</b>	<b>-726 340</b>	<b>-746 728</b>	<b>20 388</b>	<b>-3%</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Net movement in loans from shareholder	174 834	14 914	189 748	64 277	125 471	66%	The actual net movement is below budget due to the cash balance being below the forecasted cash position of R243m
Net movement in finance lease obligation: Shareholder	-	-	-	146	-146	0%	
Net movement in finance lease obligation: Other	-	-	-	1 375	-1 375	0%	
<b>Net cash flows from financing activities</b>	<b>174 834</b>	<b>14 914</b>	<b>189 748</b>	<b>65 798</b>	<b>123 950</b>	<b>65%</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-0</b>	<b>-</b>	<b>-0</b>	<b>0</b>	<b>-1</b>	<b>180%</b>	
Cash and cash equivalents at the beginning of the year	27	0	27	26	1	3%	
<b>Cash and cash equivalents at the end of the year</b>	<b>26</b>	<b>0</b>	<b>27</b>	<b>26</b>	<b>-0</b>	<b>0%</b>	
	1		1				

The approved adjusted budget 2012/2013, 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

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 1. Basis of preparation

The audited 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 covered 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 finance future operations and that the realisation of assets and settlement of liabilities, contingent liabilities and commitments will occur in the ordinary course of business.

#### 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. Due to the nature of assets acquired from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, the cost of re-assessing the useful lives of these assets will outweigh the benefits. Furthermore, the impact on the financial statements will be insignificant and therefore management have not re-assessed the useful lives of these assets.

##### **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

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 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:

<b>Item</b>	<b>Useful life</b>
Buildings	5 - 30 years
Communication equipment	2 - 7 years
Furniture and Fixtures	5 - 12 years
Computer equipment	4 - 15 years

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 1.2 Property, plant and equipment (continued)

Motor vehicles	5 - 12 years
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. Costs 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.

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 1.3 Intangible Assets (continued)

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

<b>Item</b>	<b>Useful life</b>
Computer software	3 - 6 years

### 1.4 Financial instruments

#### Initial recognition

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

Financial instruments are recognised initially at fair value 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.

# Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 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), 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.

#### 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.

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

---

### 1.4 Financial instruments (continued)

#### 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.

### 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.

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.

# Johannesburg Water SOC Limited

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## Summary of Accounting Policies

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### 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.

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.

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Summary of Accounting Policies

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### 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.

### 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 2012 to June 2013 which is in alignment to the presentation of the financial statements reporting period.

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Notes to the Audited Financial Statements

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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

	2013			2012		
	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	313 840	(215 607)	98 233	276 698	(208 436)	68 262
Plant and machinery	1 473 410	(437 530)	1 035 880	1 372 080	(391 683)	980 397
Furniture and fixtures	15 511	(9 161)	6 350	13 439	(7 984)	5 455
Motor vehicles	9 015	(2 238)	6 777	7 549	(652)	6 897
Office equipment	20 028	(9 026)	11 002	16 655	(6 083)	10 572
Computer equipment	55 363	(35 193)	20 170	50 305	(27 762)	22 543
Capital work in progress	1 299 498	-	1 299 498	821 622	-	821 622
Communication equipment	13 637	(10 633)	3 004	13 070	(9 683)	3 387
Laboratory equipment	34 838	(17 921)	16 917	23 337	(15 963)	7 374
Minor plant	58 245	(41 848)	16 397	55 141	(37 418)	17 723
Wastewater network	1 659 946	(148 052)	1 511 894	1 492 242	(127 213)	1 365 029
Water network	3 078 663	(357 873)	2 720 790	2 987 276	(325 025)	2 662 251
<b>Total</b>	<b>8 042 361</b>	<b>(1 285 082)</b>	<b>6 757 279</b>	<b>7 139 781</b>	<b>(1 157 902)</b>	<b>5 981 879</b>

# Johannesburg Water SOC Limited

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## Notes to the Audited Financial Statements

Figures in Rand thousand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Developer funded network	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
	<b>5 981 879</b>	<b>742 276</b>	<b>(15 067)</b>	<b>2 413</b>	<b>203 228</b>	<b>(149 945)</b>	<b>(7 505)</b>	<b>6 757 279</b>

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Notes to the Audited Financial Statements

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Figures in Rand thousand

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### 3. Property, plant and equipment (continued)

#### Land and buildings

Land and buildings to the value of R 108,600 (2012: R 78,629) 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 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.

# Johannesburg Water SOC Limited

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## Notes to the Audited Financial Statements

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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10 367	-	-	-	-	-	10 367
Buildings	69 663	3 361	(100)	457	-	(5 119)	68 262
Plant and machinery	1 026 356	1 298	-	2 608	-	(49 865)	980 397
Furniture and fixtures	4 464	1 298	(2)	778	-	(1 083)	5 455
Motor vehicles	128	7 300	-	-	-	(531)	6 897
Office equipment	8 566	2 706	(6)	1 127	-	(1 821)	10 572
Computer equipment	23 881	5 705	(164)	513	-	(7 392)	22 543
Assets under construction	741 042	306 061	-	(225 481)	-	-	821 622
Communication equipment	3 460	708	-	377	-	(1 158)	3 387
Laboratory Equipment	6 539	2 925	-	40	-	(2 130)	7 374
Minor plant	21 648	1 118	(61)	882	-	(5 864)	17 723
Wastewater network	1 228 781	18 657	-	27 935	106 428	(16 772)	1 365 029
Water network	2 251 443	192 313	-	187 645	85 844	(54 994)	2 662 251
	<b>5 396 338</b>	<b>543 450</b>	<b>(333)</b>	<b>(3 119)</b>	<b>192 272</b>	<b>(146 729)</b>	<b>5 981 879</b>

# Johannesburg Water SOC Limited

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Audited Annual Financial Statements for the year ended 30 June 2013

## Notes to the Audited Financial Statements

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### 3. Property, plant and equipment (continued)

#### Capital work in progress

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

Water network	R 580,788
Plant and Machinery	R 195,338
Other	R 29,247
Wastewater network	R 16,249

#### 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.

# Johannesburg Water SOC Limited

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### 3. Property, plant and equipment (continued)

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

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4 932	(1 625)	3 307	2 261	(235)	2 026
Motor vehicles	8 766	(2 065)	6 701	7 300	(505)	6 795
<b>Total</b>	<b>13 698</b>	<b>(3 690)</b>	<b>10 008</b>	<b>9 561</b>	<b>(740)</b>	<b>8 821</b>

### 4. Intangible assets

	2013			2012		
	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	59 781	(31 663)	28 118	59 885	(25 055)	34 830
<b>Total</b>	<b>61 508</b>	<b>(31 663)</b>	<b>29 845</b>	<b>61 612</b>	<b>(25 055)</b>	<b>36 557</b>

#### 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
	<b>36 557</b>	<b>4 663</b>	<b>(2 413)</b>	<b>(8 962)</b>	<b>29 845</b>

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Servitudes	1 701	-	-	26	-	1 727
Computer software	33 364	8 755	(738)	3 093	(9 644)	34 830
	<b>35 065</b>	<b>8 755</b>	<b>(738)</b>	<b>3 119</b>	<b>(9 644)</b>	<b>36 557</b>

# Johannesburg Water SOC Limited

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### 5. Inventories

	<b>2013</b>	<b>2012</b>
Material, components and fuel	39 304	37 232
Water	9 803	8 492
Subtotal	49 107	45 724
Provision for inventory write downs	(1 551)	(1 501)
	<b>47 556</b>	<b>44 223</b>

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	(482)	(158)
Johannesburg Development Agency SOC Ltd	-	(434)
Johannesburg Roads Agency SOC Ltd	(11 077)	(4 662)
Pikitup Johannesburg SOC Ltd	-	143
	<b>(11 559)</b>	<b>(5 111)</b>

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

Current assets	-	143
Current liabilities	(11 559)	(5 254)
	<b>(11 559)</b>	<b>(5 111)</b>

#### 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	-	145
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# Johannesburg Water SOC Limited

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

City of Johannesburg Metropolitan Municipality - Other loans	(306 434)	(66 296)
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(2 542 724)	(2 521 056)
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	29 872	49 129
City of Johannesburg Metropolitan Municipality - Post retirement benefit	75 216	75 762
City of Johannesburg Metropolitan Municipality - Capex drawdown	99 844	1 019
City of Johannesburg Metropolitan Municipality - Sweeping account	72 729	19 217
City of Johannesburg Metropolitan Municipality - Shareholder loans	(324 950)	(389 945)
	<b>(2 896 447)</b>	<b>(2 832 170)</b>

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

Current assets	277 661	145 127
Non-current liabilities	(2 460 548)	(2 540 772)
Current liabilities (including short term portion of long term loans)	(713 560)	(436 525)
	<b>(2 896 447)</b>	<b>(2 832 170)</b>

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 2013, R3,723 (2012: R 107) 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	-
120 days past due	1 954	-
180 days past due	155	107

#### 7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(2 521 056)	(2 460 259)
New loans	(342 238)	(383 885)
Repayments	320 570	323 088
<b>Balance at end of year</b>	<b>(2 542 724)</b>	<b>(2 521 056)</b>

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% (2012: 10,2% to 12,42%) .

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 4,78% for the current financial year (2012: 5,25%)

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 7,40 and 7,47% for the current financial year (2012: 7,47%)

# Johannesburg Water SOC Limited

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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	(389 945)	(454 939)
Repayments	64 995	64 994
<b>Balance at the end of the year</b>	<b>(324 950)</b>	<b>(389 945)</b>

The unsecured loans bear interest at a nominal annual rate of 14,5% to 15% (2012: 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	72 729	19 217
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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 7,17% (2012: 5,59%) at the reporting date.

### 8. Finance lease obligation: Shareholder

#### Minimum lease payments due

- within one year	2 511	1 918
- in second to fifth year	6 045	6 163
- later than five years	176	673
	8 732	8 754
less: Future finance charges	(1 687)	(1 855)
<b>Present value of minimum lease payments</b>	<b>7 045</b>	<b>6 899</b>

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 ten 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.

### 9. Finance lease obligation: Other

#### Minimum lease payments due

- within one year	1 858	856
- in second to fifth year	1 879	1 445
- later than five years	-	-
	3 737	2 301
less: Future finance charges	(313)	(252)
<b>Present value of minimum lease payments</b>	<b>3 424</b>	<b>2 049</b>

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	15 595	12 340
Allowance for impairment	(3 158)	(3 893)
<b>Total other receivables</b>	<b>12 437</b>	<b>8 447</b>

# Johannesburg Water SOC Limited

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### 10. Other receivables (continued)

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 2013 R 0 (2012: R 5) was past due but not impaired.

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

30 days past due	-	5
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#### Other receivables impaired

As of 30 June 2013, other receivables of R 15,595 (2012: R 12,340) were considered for impairment testing. The allowance for impairment losses was R3,158 as of 30 June 2013 (2012: R3,893).

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

Current	12 522	8 572
1 - 30 days	-	67
31 - 60 days	81	130
61 - 90 days	-	182
91 - 120 days	57	57
121 - 365 days	-	196
> 365 days	2 935	3 136
<b>Total other receivables</b>	<b>15 595</b>	<b>12 340</b>

#### Reconciliation of allowance for impairment of other receivables

Opening balance	3 893	2 925
Allowance for impairment losses	536	968
Reversed during the year	(1 271)	-
	<b>3 158</b>	<b>3 893</b>

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.

# Johannesburg Water SOC Limited

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## Notes to the Audited Financial Statements

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### 11. Consumer debtors: Exchange transactions

Trade receivables	7 034 918	6 781 346
Allowance for impairment	(5 322 618)	(5 360 647)
	<b>1 712 300</b>	<b>1 420 699</b>

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 28.9% (2012: 31.2%). The metered areas are considered to be within accepted norms, whilst the problem area has been identified as being the deemed consumption environment.

#### Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an 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	257 206	151 418
1 - 30 days	198 309	189 627
31 - 60 days	210 550	182 618
61 - 90 days	140 121	113 929
91 - 120 days	162 564	141 732
121 - 365 days	766 549	709 699
> 365 days	2 654 966	2 700 648
	<b>4 390 265</b>	<b>4 189 671</b>
Less: Allowance for impairment	(3 584 079)	(3 552 079)
	<b>806 186</b>	<b>637 592</b>

##### Domestic consumers - Past due and impaired

91 - 120 days	(162 564)	(141 732)
121 - 365 days	(766 549)	(709 699)
> 365 days	(2 654 966)	(2 700 648)
	<b>(3 584 079)</b>	<b>(3 552 079)</b>

##### Domestic consumers - Current, past due and not impaired

Current	257 206	151 418
1 - 30 days	198 309	189 627
31 - 60 days	210 550	182 618
61 - 90 days	140 121	113 929
	<b>806 186</b>	<b>637 592</b>

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### 11. Consumer debtors: Exchange transactions (continued)

#### Commercial consumers

Current	401 129	417 575
1 - 30 days	119 131	124 401
31 - 60 days	109 622	94 315
61 - 90 days	86 688	58 730
91 - 120 days	79 848	89 963
121 - 365 days	337 944	356 977
> 365 days	1 279 829	1 214 620
	<u>2 414 191</u>	<u>2 356 581</u>
Less: Allowance for impairment	(1 564 454)	(1 661 560)
	<b>849 737</b>	<b>695 021</b>

#### Commercial consumers - Past due and impaired

91 - 120 days	(54 397)	(89 963)
121 - 365 days	(230 228)	(356 977)
> 365 days	(1 279 829)	(1 214 620)
	<u>(1 564 454)</u>	<u>(1 661 560)</u>

#### Commercial consumers - Current, past due and not impaired

Current	401 129	417 575
1 - 30 days	119 131	124 401
31 - 60 days	109 622	94 315
61 - 90 days	86 688	58 730
91 - 120 days	25 451	-
	107 716	-
	<u>849 737</u>	<u>695 021</u>

#### National and provincial government

Current	19 272	46 170
1 - 30 days	15 657	16 947
31 - 60 days	12 731	14 038
61 - 90 days	8 717	10 931
91 - 120 days	12 526	10 113
121 - 365 days	47 774	36 225
> 365 days	113 785	100 670
	<u>230 462</u>	<u>235 094</u>
Less: Allowance for impairment	(174 085)	(147 008)
	<b>56 377</b>	<b>88 086</b>

#### National and provincial government - Past due and impaired

91 - 120 days	(12 526)	(10 113)
121 - 365 days	(47 774)	(36 225)
> 365 days	(113 785)	(100 670)
	<u>(174 085)</u>	<u>(147 008)</u>

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### 11. Consumer debtors: Exchange transactions (continued)

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

Current	19 272	46 170
1 - 30 days	15 657	16 947
31 - 60 days	12 731	14 038
61 - 90 days	8 717	10 931
	<b>56 377</b>	<b>88 086</b>

#### Total consumer debtors

Current	677 607	615 163
1 - 30 days	333 097	330 975
31 - 60 days	332 903	290 971
61 - 90 days	235 526	183 590
91 - 120 days	254 938	241 808
121 - 365 days	1 152 267	1 102 901
> 365 days	4 048 580	4 015 938
	7 034 918	6 781 346
Less: Allowance for impairment	(5 322 618)	(5 360 647)
	<b>1 712 300</b>	<b>1 420 699</b>

#### Total consumer debtors - Past due and impaired

91 - 120 days	(229 487)	(241 808)
121 - 365 days	(1 044 551)	(1 102 901)
> 365 days	(4 048 580)	(4 015 938)
	<b>(5 322 618)</b>	<b>(5 360 647)</b>

#### Total consumer debtors - Current, past due but not impaired

Current	677 607	615 163
1 - 30 days	333 097	330 975
31 - 60 days	332 903	290 971
61 - 90 days	235 526	183 590
91 - 120 days	25 451	-
121 - 365 days	107 716	-
	<b>1 712 300</b>	<b>1 420 699</b>

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(5 360 647)	(4 531 239)
	(946 153)	(1 012 207)
Impairment written off against allowance	984 182	182 799
	<b>(5 322 618)</b>	<b>(5 360 647)</b>

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### 12. Financial assets by category

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

#### 2013

	Loans and receivable	Other	Total
Consumer debtors	1 712 300	-	1 712 300
Other receivables	2 899	-	2 899
Prepayments	-	9 538	9 538
<b>Total Other Receivables</b>	<b>2 899</b>	<b>9 538</b>	<b>12 437</b>
<b>Loans to shareholder</b>	<b>277 661</b>	<b>-</b>	<b>277 661</b>
<b>Cash</b>	<b>26</b>	<b>-</b>	<b>26</b>
	<b>1 992 886</b>	<b>9 538</b>	<b>2 002 424</b>

#### 2012

	Loans and receivable	Other	Total
Consumer debtors	1 420 699	-	1 420 699
Other receivables	2 922	-	2 922
Prepayments	-	5 525	5 525
	<b>2 922</b>	<b>5 525</b>	<b>8 447</b>
<b>Loans to shareholder</b>	<b>145 127</b>	<b>-</b>	<b>145 127</b>
<b>Cash</b>	<b>26</b>	<b>-</b>	<b>26</b>
<b>Trade Receivables</b>	<b>143</b>	<b>-</b>	<b>143</b>
	<b>1 568 917</b>	<b>5 525</b>	<b>1 574 442</b>

### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26	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 2013 is R72,729 million (2012: R19,217 million).

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### 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

#### Issued

200 Ordinary shares of R1 each

1

1

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### 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	32 673	33 491
Provision:Post-Retirement Housing Subsidy obligation	15.2	54	113
Provision:Post-Retirement Gratuity Obligation	15.3	61 613	53 596
<b>Balance at end of year</b>		<b>94 340</b>	<b>87 200</b>

#### 15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 27 employees (2012: 34 employees), and 40 continuation members (2012: 37 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		33 491	34 589
Benefits paid		(1 445)	(1 123)
Current service costs		192	316
Interest costs		2 864	2 971
Actuarial gain		(2 429)	(3 262)
<b>Balance at end of year</b>		<b>32 673</b>	<b>33 491</b>

#### Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used		7.89 %	8.60 %
Expected increase in salaries		6.67 %	6.70 %

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:

	<b>-1%</b>	<b>0%</b>	<b>1%</b>
Liability	31,011	32,673	33,915
Percentage change	-5.1%	0%	3.8%

#### Post Retirement Mortality

	<b>-20%</b>	<b>0%</b>	<b>20%</b>
20% adjustment to mortality rate	35,029	32,673	30,738
Percentage change	-7.2%	0%	5.9%

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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 6 employees (2012: 12 employees). 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		113	136
Current service costs		4	5
Interest costs		10	12
Actuarial gain		(73)	(40)
<b>Balance at end of year</b>		<b>54</b>	<b>113</b>

#### Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used		7.89 %	8.60 %
Expected increase in salaries		6.67 %	6.70 %

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:

	<b>-1%</b>	<b>0%</b>	<b>1%</b>
Liability	51	54	58
Percentage change	-5.6%	0%	7.4%
Post Retirement Mortality	<b>-20%</b>	<b>0%</b>	<b>20%</b>
20% adjustment to mortality rate	55	54	53
Percentage change	1.9%	0%	-1.9%

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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 378 employees (2012: 410 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	53 596	50 501
Benefits paid	(4 402)	(5 784)
Interest Cost	4 586	3 432
Actuarial loss / (gain)	7 833	5 447
<b>Balance at end of year</b>	<b>61 613</b>	<b>53 596</b>

#### Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used	7.89 %	8.60 %
Expected increase in salaries	6.67 %	6.70 %

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:

Liability	-1%	0%	-1%
Percentage change	57,626	61,613	65,987
	-6.5%	0%	7.1%

Post Retirement Mortality	-20%	0%	20%
20% adjustment to mortality rate	61,551	61,613	61,674
Percentage change	-0.1%	0%	0.1%

#### 15.4 Net expense recognised in the statement of financial performance

Post retirement medical aid plan	818	1 098
Post retirement housing subsidy plan	59	23
Post retirement gratuity plan	(8 017)	(3 095)
<b>Total included in employee related costs</b>	<b>(7 140)</b>	<b>(1 974)</b>

#### 15.5 Defined contribution plan

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

The total company contribution to such schemes	51 982	47 453
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### 16. Unspent conditional grants

Unspent conditional grants comprise:

#### Unspent conditional grants and receipts

Government grants	499	1 481
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#### Government grants movement during the year

Balance at the beginning of the year	1 481	5 601
Received in current year	378 583	215 443
Utilised during the year	(379 565)	(219 563)
<b>Balance at the end of the year</b>	<b>499</b>	<b>1 481</b>

The unspent conditional grants have been contracted for. The projects were classified as work in progress at the reporting date resulting in partial fulfillment of the conditions attached to the funding.

### 17. Trade and other payables from exchange transactions

Trade payables	723 846	475 262
Payments received in advanced	362 935	502 090
Accrued leave pay	39 385	37 112
Accrued bonus	18 677	17 403
Operating lease payables	19 047	17 339
Sundry payables	19 164	5 342
VAT	227 202	235 261
Consumer deposits	217 601	162 132
	<b>1 627 857</b>	<b>1 451 941</b>

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

### 18. Provisions

#### 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

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	12 000	13 800	(12 000)	-	13 800

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### 19. Financial liabilities by category

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

#### 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
<b>Trade and other payables from exchange transactions</b>	<b>1 028 054</b>	<b>599 803</b>	<b>1 627 857</b>
<b>Trade payables with group companies</b>	<b>11 559</b>	<b>-</b>	<b>11 559</b>
<b>Loans from Shareholder</b>	<b>3 174 108</b>	<b>-</b>	<b>3 174 108</b>
Finance lease obligation: Shareholder	7 045	-	7 045
Finance lease obligation: Other	3 424	-	3 424
<b>Provisions</b>	<b>-</b>	<b>15 080</b>	<b>15 080</b>
	<b>4 224 190</b>	<b>614 883</b>	<b>4 839 073</b>

#### 2012

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	707 489	-	707 489
South African Revenue Services	-	242 207	242 207
Customer Prepayments	-	502 245	502 245
<b>Trade and other payables from exchange transactions</b>	<b>707 489</b>	<b>744 452</b>	<b>1 451 941</b>
<b>Trade payables with group companies</b>	<b>5 254</b>	<b>-</b>	<b>5 254</b>
<b>Loans from Shareholder</b>	<b>2 977 297</b>	<b>-</b>	<b>2 977 297</b>
Finance lease obligation: Shareholder	6 899	-	6 899
Finance lease obligation: Other	2 049	-	2 049
<b>Provisions</b>	<b>-</b>	<b>13 800</b>	<b>13 800</b>
	<b>3 698 988</b>	<b>758 252</b>	<b>4 457 240</b>

### 20. Revenue from exchange transactions

Sale of water	3 973 745	3 137 231
Rendering of sanitation services	1 898 224	2 009 276
	<b>5 871 969</b>	<b>5 146 507</b>

### 21. Other income

Other income	79 280	33 219
Laboratory income	1 235	1 442
Developer funded asset income	203 228	192 272
Profit on disposal of property, plant and equipment	-	797
Bulk service contributions released	41 449	34 465
	<b>325 192</b>	<b>262 195</b>

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### 22. Revenue from non-exchange transactions

Government grants released	379 565	219 563
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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 28.9% [R820,6 million], (2012: 31.2% [R769,3 million]). The level of physical losses for the year under review is 13.7% [R389,0 million], (2012: 13.2% [R325,5 million]). The level of commercial losses for the year under review is 15.2% [R431,6 million], (2012: 18% [R443,8 million]).

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 10.9% [R309,5 million], (2012: 13.2% [R325,5 million]).

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		27 940	27 592
Motor vehicles		81 131	77 542
Equipment		1 662	1 034
		<b>110 733</b>	<b>106 168</b>

#### Operating expenses

Allowance for debt impairment	26	909 879	914 537
Employee costs	28	699 073	632 565
Electricity and chemicals	27	185 219	158 298
Billing and meter reading charges		174 625	171 410
Depreciation, amortisation and impairments		166 413	156 373
Consumables		89 964	77 580
Security		24 448	22 723
Loss on disposal of property, plant and equipment		14 856	-
Insurance		10 063	7 752
Repairs and maintenance		8 244	7 966
Legal expenses		1 425	1 387

### 25. Auditors remuneration

Fees	3 755	3 413
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### 26. Allowance for impairment (Bad debts)

Allowance for impairment	909 879	914 537
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### 27. Electricity and Chemicals

Electricity	159 243	137 641
Chemicals	25 976	20 657
	<b>185 219</b>	<b>158 298</b>

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### 28. Employee costs

Basic	481 996	445 764
Other allowances	81 088	71 198
Pension costs	69 706	55 049
Medical aid - company contributions	40 844	37 295
Leave pay	10 104	11 862
Post retirement benefit plan cost (Defined contribution plan)	12 987	8 881
Housing benefits and allowances	2 348	2 516
	<b>699 073</b>	<b>632 565</b>

#### Average number of employees employed during the year

- Permanent	2 436	2 420
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### 29. Interest revenue

Interest earned - sweeping account	2 899	1 775
Interest on impaired accounts	66 275	55 770
	<b>69 174</b>	<b>57 545</b>

### 30. Finance costs

Interest paid - Shareholder loans and Finance leases	295 087	306 726
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### 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 before taxation		812 012	364 505
<b>Adjustments for:</b>			
Depreciation, amortisation and impairments	3&4	166 413	156 373
Allowance for impairment	26	909 879	914 537
Movements in retirement benefit assets and liabilities	15	7 140	1 974
Movements in provisions	18	1 280	1 800
Other non-cash items		29 714	(3 901)
(Loss)/Profit on disposal of property, plant and equipment	21	(14 856)	797
Developer funded asset income	3	(203 228)	(192 272)
<b>Changes in working capital:</b>			
Inventories	5	(3 333)	(2 254)
Other receivables	10	(3 990)	1 272
Consumer debtors	11&26	(1 201 480)	(1 228 104)
Trade and other payables from exchange transactions	17	175 913	486 602
Unspent conditional grants	16	(982)	(4 120)
Net movement in balances with group companies	6	6 448	(935)
		<b>680 930</b>	<b>496 274</b>

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### 33. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

Property, plant and equipment	1 150 214	720 204
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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	800 080	291 210
Grant funding	341 737	426 240
Internal cash	8 397	2 754
	<b>1 150 214</b>	<b>720 204</b>

#### Operating leases - as lessee

##### Minimum lease payments due

• within one year	26 349	25 781
• in second to fifth year inclusive	87 297	113 647
• later than five years	33 426	33 426
	<b>147 072</b>	<b>172 854</b>

Operating lease payments represent rentals payable by the company for certain of its office properties. 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

#### 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 by related parties

City of Johannesburg Metropolitan Municipality - Net current assets

- 78 832

##### Loan amounts owing to related parties

City of Johannesburg Metropolitan Municipality - Net current liabilities

28 773 -

City of Johannesburg Metropolitan Municipality - long term loans

2 460 548 2 540 772

Finance lease obligation: shareholder

7 045 6 899

Short term portion of long term loans

407 126 370 228

**2 903 492 2 917 899**

#### Related party balances

##### Amounts owing by related parties

City of Johannesburg Metropolitan Municipality - General

103 331 130 930

Pikitup Johannesburg SOC Ltd - General

- 143

Johannesburg Roads Agency SOC Ltd - General

4 5

**103 335 131 078**

##### Amounts owing to related parties (excluding long term liabilities)

City of Johannesburg Metropolitan Municipality

539 229 422 326

Johannesburg City Parks NPC

482 404

Johannesburg Roads Agency SOC Ltd

11 081 6 787

Johannesburg Development Agency SOC Ltd

- 434

**550 792 429 951**

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### 34. Related parties (continued)

#### Related party transactions

##### Sales to related parties

City of Johannesburg Metropolitan Municipality	1 168	1 949
Pikitup Johannesburg SOC Ltd	384	373
Johannesburg Roads Agency SOC Ltd	19	25
	<b>1 571</b>	<b>2 347</b>

##### Purchases from related parties

City of Johannesburg Metropolitan Municipality	(286 026)	(287 894)
Johannesburg Social Housing Company SOC Ltd	(2 105)	(1 406)
Johannesburg City Parks NPC	(856)	(1 135)
Johannesburg Development Agency SOC Ltd	-	(381)
Johannesburg Roads Agency SOC Ltd	(20 233)	(17 177)
	<b>(309 220)</b>	<b>(307 993)</b>

##### Interest on shareholder loans and sweeping account

Interest earned on sweeping account	2 899	1 775
Interest paid on shareholder loans	(294 811)	(306 671)
	<b>(291 912)</b>	<b>(304 896)</b>

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

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
	<b>2 315</b>	<b>209</b>	<b>269</b>	<b>334</b>	<b>3 127</b>
2012	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
GT Dumas - Managing director	-	196	-	-	196
M Padiaychee - Acting Managing Director	826	-	-	92	918
M. Padiaychee - Financial Director	573	193	-	94	860
	<b>1 399</b>	<b>389</b>	<b>-</b>	<b>186</b>	<b>1 974</b>

#### Non executive directors

Services rendered as director of company	2013	2012
Ms M van Rensburg Retired 24/04/2012	-	160
Mr N Macleod Retired 24/04/2012	-	150
Dr N Mabuya Retired 24/04/2012	-	95
Mr N Govender	124	157
Ms N C Skeepers	147	147
Ms N Msezane	120	112
Mr C Tilly	175	145
Ms G Moloji	144	42
Mr J Mateya	257	24
Mr C Motau	82	24
Ms C Mbili	161	18
I Jacobs Retired 23/03/2013	-	-
	-	-
	<b>1 210</b>	<b>1 074</b>

#### Services rendered as independent members of audit committee

Ms C Mbili Retired 24/04/2012	-	42
Ms M Malope Retired 6/10/2011	-	20
Mr V Mokwena	78	7
Ms K Mdutshane	78	18
Mr R Buys	71	11
	<b>227</b>	<b>98</b>

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

#### Senior Management

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
D Shabalala	147	-	31	23	201
G J Luden (3 months)	246	-	-	50	296
	<b>3 417</b>	<b>343</b>	<b>369</b>	<b>469</b>	<b>4 598</b>
2012	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	1 137	171	-	150	1 458
J M Methula	322	-	90	39	451
N J Mukwevho	571	-	88	81	740
J Mnisi	881	31	96	148	1 156
G Luden	911	32	-	180	1 123
	<b>3 822</b>	<b>234</b>	<b>274</b>	<b>598</b>	<b>4 928</b>

J Mnisi acted in the capacity of Managing Director for the period, 1 January 2012 to 29 February 2012.

B Q Zimu acted in the capacity of Managing Director for the period, 1 March 2012 to 13 May 2012.

G J Luden acted in the capacity of Managing Director for the period 14 May 2012 to 30 September 2012.

### 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 subsequently recalculated the accrual value in relation to the 2011 and 2012 financial years and this amounts to a reduction in revenue for the 2011 and 2012 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2012	2011 Cumulative
<b>Impact on Statement of Financial Position</b>		
Decrease in Consumer debtors: Exchange transactions	(217 682)	(274 566)
<b>Impact on Statement of Financial Performance</b>		
Decrease in Revenue from exchange transactions	(217 682)	(274 566)
<b>Impact on Statement of Changes in Net Assets</b>		
Decrease in net surplus for the year	(217 682)	(274 566)

#### 37.2 Reversal of discounting

The effect of the time value of money (discounting) should only be taken into account where extended payment terms are granted. Based on circular 09/2006, it follows that extended payment terms are those credit terms outside of normal credit terms. It has been determined that the company has historically been discounting trade receivables and trade payables on normal credit terms (i.e. 30 days) since inception of the accounting standard. This was inconsistent with the accounting framework (GRAP), Circular 09/2006 and common business practice. It has now been corrected.

	2012	2011 Cumulative
<b>Impact on Statement of Financial Position</b>		
Increase in Consumer debtors: Exchange transactions	2 698	1 551
Increase in trade and other payables from exchange transactions	(393)	(801)
<b>Impact on Statement of Financial Performance</b>		
Increase in Revenue from exchange transactions	23 039	20 682
Increase in Cost of sales	(10 950)	(9 874)
Increase in Other income	148	8
Increase in Operating expenditure	(3 689)	(3 356)
Decrease in Effective interest rate adjustment	(6 243)	(6 710)
<b>Impact on Statement of Changes in Net Assets</b>		
Increase in net surplus for the year	2 305	750

#### 37.3 Reclassification of interest on impaired accounts

Interest on impaired accounts was previously disclosed under Operating expenses on the Statement of Financial Position. More specifically it was accounted for as a set off against the allowance for impairment (bad debt). This practice is not permitted in term of GRAP 1. The effect of the incorrect treatment was that the allowance for impairment (bad debt) and the interest on overdue accounts were not accurately disclosed in the current and prior year's financial statements to reflect the substance of the transaction. This has now been corrected by accounting for the interest in impaired accounts under Interest Revenue on the Statement of Financial Position. The correction for prior periods is set out below.

	2012	2011 Cumulative
<b>Impact on Statement of Financial Performance</b>		
Increase in Interest revenue	55 770	63 990
Increase in Operating expenditure	(55 770)	(63 990)
<b>Impact on Statement of Changes in Net Assets</b>		
Increase/(decrease) in net surplus for the year	-	-

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### 37.4 Fleet finance lease recognition

The lease classification for specialised vehicles as adopted in the prior year was deemed to be incorrect by the City of Johannesburg Metropolitan Municipality. The subsequent correction in accounting treatment from operating to finance lease has resulted in a prior period error requiring correction as set out below:

	2012	2011 Cumulative
<b>Impact on Statement of Financial Position</b>		
Increase in Property, plant and equipment	6 795	-
Increase in Finance lease obligation: Shareholder	(6 898)	-
Increase in Finance lease obligation: Other	(2 050)	-
Decrease in Trade and other payables from exchange transactions	2 050	-
<b>Impact on Statement of Financial Performance</b>		
Increase in Finance costs	238	-
Decrease in operating expenditure	134	-
<b>Impact on Statement of Changes in Net Assets</b>		
Decrease in net surplus for the year	(104)	-

### 37.5 Cumulative Impact on Statement of Changes in Net Assets

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

	2012	2011 Cumulative
<b>Impact on Statement of Changes in Net Assets</b>		
Increase in net surplus for the year	(215 481)	(273 816)

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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 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	1 028 057	-	-	-

  

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	671 799	655 603	1 753 293	1 722 452
Finance lease obligation: Shareholder	1 287	1 421	3 564	627
Finance lease obligation: Other	712	771	566	-
Trade payables with group companies	5 111	-	-	-
Trade and other payables from exchange transactions	707 491	-	-	-

#### 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%)	5.06%	727	192
Bank sweeping (-1%)		(727)	(192)
Shareholder loan (Jibar linked) (+1%)	7.47%	7 528	7 331
Shareholder loan (Jibar linked) (- 1%)		(7 528)	(7 331)

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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	9 676	10 478	20 154
Sole Suppliers	28 057	11 204	39 261
Impracticality	161 563	15 804	177 367
	<b>199 296</b>	<b>37 486</b>	<b>236 782</b>

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.

### 41. Irregular expenditure

#### Reconciliation of irregular expenditure

Opening balance	-	168
Condoned	-	(168)
	-	-

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### 41. Irregular expenditure (continued)

During an audit of the company's vendor database, the company's declarations of interests' forms which are required to be completed and submitted by prospective service providers, had a discrepancy in the wording when compared to the requirements of the MFMA Regulation 44 (b).

Accordingly, this resulted in irregular expenditure of R168 being awarded via the quotations process to persons of which one of the shareholders is in the service of the state. The MFMA regulation 44 (b) prohibits awards to non natural persons of which any director, manager, principal shareholder or stakeholder is a person in the service of the state. The MFMA regulation 13 (c) (i) however does not necessarily prohibit such persons to submit an offer provided they declare that they are in the service of the state or have been in the service for the previous twelve months. It is further noted that the service provider involved in this instance is not connected with or related to any one employed by the company.

The board has subsequently condoned this expenditure in 2012.

### 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	762 232	539 632
Actual spend for the year	(741 950)	(537 631)
	<b>20 282</b>	<b>2 001</b>
Actual spend as a percentage of budget	97.3 %	99.6 %

### Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	387 600	(25 285)	362 315	342 222	(20 093)
Own Funding	20 000	2 000	22 000	22 659	659
Grants and subsidies	320 632	57 285	377 917	377 069	(848)
	<b>728 232</b>	<b>34 000</b>	<b>762 232</b>	<b>741 950</b>	<b>(20 282)</b>

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### 43. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Opening balance	-	397
Current year fee	3 755	3 413
Amount paid - current year	(3 626)	(3 413)
Amount paid - previous years	-	(397)
	<b>129</b>	<b>-</b>

#### PAYE and UIF

Opening balance	6 946	6 750
Current year contributions	102 501	93 937
Amount paid - current year	(101 148)	(86 991)
Amount paid - previous years	-	(6 750)
	<b>8 299</b>	<b>6 946</b>

#### Pension and Medical Aid Contributions

Current year contributions	149 203	136 494
Amount paid - current year	(149 203)	(136 494)
	<b>-</b>	<b>-</b>

### 44. Subsequent Events

There are no material events that require comment.