



Johannesburg Water (SOC) Limited
Annual Financial Statements
for the year ended 30 June 2019

The preparation of these Audited Annual Financial Statements were supervised by:
J. Koekemoer (Financial Director)

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/30)

Annual Financial Statements for the year ended 30 June 2019

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act, 108 of 1997
Directors	KPM Simelane (Chairman) NJ Mukwevho (Managing Director) J Koekemoer (Financial Director) B Furstenburg K Mdutshane S Tshivhunge B Twala J Maduna R Mudliar D Sebotsa M van Dijk
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Shareholder	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General of South Africa
Secretary	S Sibiya
Company registration number	2000/029271/30
Attorneys	Moodie and Robertson

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Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act, 56 of 2003 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the director's responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practices (GRAP) and in accordance with directives issued by the National Treasury. The Auditor-General of South Africa is engaged to express an independent opinion on the annual financial statements.

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

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

The company is a wholly owned subsidiary of the City of Johannesburg Metropolitan Municipality. The company relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Customer billing
- Cash collection
- Debtors administration
- Call centre management

The management of the above functions is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and Johannesburg Water (SOC) Limited. The implemented processes and methods of operations are solely under the control and stewardship of the Revenue Shared Service Centre of the City of Johannesburg Metropolitan Municipality. This arrangement is managed in terms of a service level agreement underpinning the agency agreement.

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

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

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

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors have reviewed the company's cash flow, statement of financial position and performance, business plan and budgets and financial ratios and consider the company to be operating on a going concern basis. They are satisfied that the company has or will have 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.

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Directors' Responsibilities and Approval

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

The annual financial statements set out on pages 7 to 81, which have been prepared on the going concern basis, were reviewed by the Board on 27 November 2019 and signed by:

KPM Simelane (Chairman)

NJ Mukwevho (Managing Director)

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Annual Financial Statements for the year ended 30 June 2019

Report of Audit and Risk Committee

We are pleased to present our report for the financial year ended 30 June 2019.

Audit and Risk committee responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 94(7) of the Companies Act, 71 of 2008, as amended, and section 166(2) of the Municipal Finance Management Act, 56 of 2003. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter in line with the principles of King IV, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

Assessment of the finance function

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

The effectiveness of internal controls

The Audit and Risk Committee evaluated the internal control environment, and based on the information, reports and explanations provided by management, Internal Audit Department and the Auditor-General of South Africa, assessed the internal controls as adequate but ineffective to mitigate the related risks to an acceptable level. The internal controls were ineffective as indicated in the Statement of Internal controls (SIC) by Internal Audit which highlighted the focus areas where there was slow implementation of action plans by management. The committee is however encouraged by management's commitment to address audit findings and implement action plans as reflected by the 78% and 89% resolution rates on internal audit and Auditor-General of South Africa findings respectively.

The implementation of the action plans relating to revenue and receivables and expenditure management had limited impact on the audit outcomes. The committee commits to holding the accounting officer and senior management accountable to ensure that the internal control deficiencies are addressed. These deficiencies raised revolved around Meter Reading, Revenue Management, Supply Chain Management and Asset Management.

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

The effectiveness of the internal audit department

The Internal Audit department executed and completed 102.85% audit projects against the 2018/2019 financial year approved annual internal audit plan. The plan was properly aligned to the risk register. The committee is satisfied with the effectiveness of the internal audit function during the year and accepts that the internal audit activity has to a large extent addressed the significant risks pertinent to Johannesburg Water. The unit has included the review of the SCM tenders above R10 million in its scope of work (27 probity reviews completed) and the Audit of Performance Objectives.

An independent quality assurance review was conducted for the internal function in the 2014/2015 financial year and was found to be partially compliant. The Committee had closely monitored the progress on the gaps identified on a quarterly basis through the quality assurance and improvement plan. The resolution rate of the gaps identified was at 94% (31 out of 33) and 6% (2) outstanding are in progress as at end of 2018/2019 financial year. The entity has commenced with the process of commissioning for another independent quality assessment to be conducted during 2019/2020. The committee considered the understanding of internal audit their role and responsibility, the charter, structure and positioning, skills and experiences, relationship with the audit committee, and performance and audit plan. The committee concluded that these were appropriate and effective.

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Report of Audit and Risk Committee

Performance reporting

The performance of the company is measured through the Balanced Scorecard which is based on targets approved by the Board of Directors. The Internal Audit Department has been mandated to conduct audit of predetermined objectives and report to the Audit and Risk Committee on quarterly basis.

Risk management

Johannesburg Water has a Risk Management Division which focuses on the identification, assessment, management and monitoring of risk. Based on the information provided, the committee notes that the residual risk for financial sustainability and delay in infrastructure delivery which had very high inherent risk rating have significantly improved.

Legal compliance

Although there are processes in place to monitor the level of compliance to laws and regulations within the company and although significant gains in this regard have been realised, the audit outcomes indicate that the processes need to be further enhanced, as can be evidenced by the irregular expenditure incurred.

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

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

External Auditors

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

Matters raised by the Auditor-General

Of the 85 findings outstanding, 76 (89%) were resolved and 9 (11%) were in the process of being resolved during 2018/2019 financial year. The Committee has noted the significant improvement in the resolution rate on the Auditor-General of South Africa's findings, however remain concerned with the recurring findings of revenue management and instances of Irregular and Fruitless and Wasteful Expenditure.

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

The Committee has noted the findings raised by the Auditor-General of South Africa in 2017/2018 and commits to continue holding the accounting officer and senior management accountable for the implementation of action plans, with more emphasis on recurring findings.

Appreciation

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

K Mdutshane
Johannesburg Water (SOC) Limited
Chairman of the Audit and Risk Committee

27 November 2019

Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Directors' Report

The directors submit their report for the year ended 30 June 2019.

1. INCORPORATION

The entity 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, 108 of 1997 in South Africa within the City of Johannesburg municipal demarcation.

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

- Customer billing
- Cash collection
- Debtors administration
- Call centre management

The centralisation of 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 R1.754 billion (2018: R1.368 billion). 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, 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 Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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Directors' Report

6. CONTRIBUTION FROM SHAREHOLDER

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

According to the company's register at 30 June 2019, 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 company during the year and to the date of this report are as follows:

Name	Nationality	Changes
KPM Simelane (Chairman)	South African	
NJ Mukwevho (Managing Director)	South African	
J Koekemoer (Financial Director)	South African	Appointed 01 December 2018
B Furstenburg	South African	
K Mdutshane	South African	
S Tshivhunge	South African	
B Twala	South African	
J Maduna	South African	Appointed 17 April 2019
R Mudliar	South African	Appointed 17 April 2019
D Sebotsa	South African	Appointed 17 April 2019
M van Dijk	South African	Appointed 17 April 2019
JJH Mateya	South African	Retired 17 April 2019
MP Matji	South African	Retired 17 April 2019

11. SECRETARY

The secretary of the entity is S Sibiya of:

Physical Address:

17 Harrison Street
Marshalltown
Johannesburg
2107

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Directors' Report

12. CORPORATE GOVERNANCE

12.1 General

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

The company confirms and acknowledges its responsibility to total compliance with the principles as laid down in the King IV Report on Corporate Governance, and the Companies 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 King IV Report on a quarterly basis.

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.

In terms of the Company's Articles of Association there may not be more than 11 directors on the Board of which two (2) shall be executive directors. The Board is currently capacitated with nine (9) non-executive directors and two (2) executive directors.

12.3 Chairman and Managing Director

The Chairman is a non-executive and independent director. The roles of the Chairman and Managing Director are distinctly separate, with responsibilities divided between them, so that no individual has unfettered powers of decision.

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Directors' Report

12.4 Board and Board Sub-Committee meetings

The directors have met on 7 separate occasions during the financial year. The directors are scheduled to meet at least 4 times per annum.

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

Name	Board Meetings	Audit and Risk Committee meeting	Human Resources and Social and Ethics Committee	Service Delivery and Oversight Procurement Committee meeting	Nomination Committee	Total meetings
Total number of meetings held	7	6	5	1	4	23
KPM Simelane (Chairman)	7	-	3	-	1	11
NJ Mukwevho (Managing Director)	7	6	5	1	4	23
J Koekemoer (Financial Director)	3	2	2	1	-	8
B Furstenburg	7	5	5	-	3	20
K Mdutshane	7	-	-	1	1	9
S Tshivhunge	6	-	-	1	-	7
B Twala	-	-	-	1	-	1
J Maduna	2	-	-	-	-	2
R Mudliar	2	-	-	-	-	2
D Sebotsa	2	-	-	-	-	2
M van Dijk	2	-	-	-	-	2
JJH Mateya	5	-	5	-	-	10
MP Matji	2	4	-	-	-	6

There were 3 Nomination Committee meetings held for the position of Executive Manager: Risk and Compliance and 1 Nomination Committee meeting held for the position of Financial Director.

12.5 Audit and Risk Committee

The Chairman of the Audit and Risk Committee for the majority of the period under review was B. Furstenburg who is a non-executive director. The other member of the board, who formed part of the Audit and Risk Committee during this period, was MP Matji. The committee met 6 times during the financial year to review matters necessary to fulfill its role.

On the 16 May 2019, K Mdutshane was appointed as the new Chairman of the Audit and Risk Committee with Mr B Furstenburg as the other member of the Board serving in the Committee.

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Directors' Report

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

The following independent members served on the Committee during the period under review and were subsequently retired on 17 April 2019:

R Buys	- Attended 2 meetings during the financial year
V Mokwena	- Attended 5 meetings during the financial year
Z Samsam	- Attended 6 meetings during the financial year

Following the Annual General Meeting held on 17 April 2019, the following independent members were appointed:

R Hill
C Tilly
L Makape

12.6 Internal audit

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

13. SHAREHOLDER

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

14. SPECIAL RESOLUTIONS

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

15. BANKERS

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

16. AUDITORS

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

17. NON-COMPLIANCE WITH APPLICABLE LEGISLATION

The entity's Broad-Based Black Economic Empowerment (B-BBEE) status for its level of contribution for the period under review was non-compliant. In other words, the entity contributed no B-BBEE percentage points in instances where it conducted business with other entities.

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Company Secretary's Certification for the year ended 30 June 2019

In terms of Section 88(2)(e) of the Companies Act, 71 of 2008, and the Municipal Finance Management 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 2019, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

S Sibiya
Company Secretary

Johannesburg Water (SOC) Limited
27 November 2019

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Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand thousand	Note(s)	2019	2018 Restated*
ASSETS			
Current Assets			
Inventories	5	43,950	85,180
Trade receivables with group companies	6	623	436
Loans to shareholder	7	1,154,747	677,270
Other receivables	10	46,829	20,124
Consumer debtors: Exchange transactions	11	2,878,850	2,331,030
Cash and cash equivalents	14	30	30
Total Current Assets		4,125,029	3,114,070
Non-Current Assets			
Property, plant and equipment	3	11,322,601	10,552,251
Intangible assets	4	38,981	46,814
Total Non-Current Assets		11,361,582	10,599,065
Total Assets		15,486,611	13,713,135
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	56,757	64,083
Loans from shareholder	7	2,016,576	1,908,002
Finance lease obligation: Shareholder	8	5,794	4,579
Finance lease obligation: Other	9	-	112
Trade and other payables from exchange transactions	18	1,682,156	1,799,290
Provisions	19	26,991	16,453
Total Current Liabilities		3,788,274	3,792,519
Non-Current Liabilities			
Loans from shareholder	7	2,319,414	2,315,698
Finance lease obligation: Shareholder	8	8,604	7,847
Retirement benefit obligation	16	65,459	71,439
Consumer deposits	12	344,474	318,972
Total Non-Current Liabilities		2,737,952	2,713,956
Total Liabilities		6,526,226	6,506,475
Net Assets		8,960,385	7,206,660
NET ASSETS			
Contribution from Shareholder	15	1	1
Accumulated surplus		8,960,384	7,206,659
Total Net Assets		8,960,385	7,206,660

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Statement of Financial Performance

Figures in Rand thousand	Note(s)	2019	2018 Restated*
Revenue from exchange transactions	20	11,718,323	10,088,096
Cost of sales		(5,593,972)	(4,799,538)
Gross surplus		6,124,351	5,288,558
Other income	21	279,884	339,365
Revenue from non-exchange transactions	22	203,704	194,940
Operating expenses	24	(4,773,860)	(4,292,805)
Operating surplus		1,834,079	1,530,058
Interest revenue	26	192,602	155,252
Finance costs	27	(272,956)	(317,228)
Surplus for the year		1,753,725	1,368,082

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Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 1 July 2017 as previously reported		1	5,830,394	5,830,395
Prior year adjustments	34		8,183	8,183
Balance at 01 July 2017 restated		1	5,838,577	5,838,578
Surplus for the year restated			1,368,082	1,368,082
Balance at 01 July 2018 restated		1	7,206,659	7,206,660
Surplus for the year			1,753,725	1,753,725
Balance at 30 June 2019		1	8,960,384	8,960,385
Note			15	

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Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

Figures in Rand thousand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		10,387,322	8,933,581
Cash receipts from government grants and bulk service contributions		380,231	223,095
Interest revenue		88,865	91,640
		<u>10,856,418</u>	<u>9,248,316</u>
Payments			
Cash paid to suppliers and employees		(9,606,387)	(7,886,868)
Finance costs		(271,143)	(310,431)
		<u>(9,877,530)</u>	<u>(8,197,299)</u>
Net cash flows from operating activities	29	<u>978,888</u>	<u>1,051,017</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(892,680)	(585,405)
Proceeds from disposal of property, plant and equipment and intangible assets		89	52
Purchase of intangible assets		(7,297)	(473)
Proceeds from post retirement notional account		4,733	5,779
		<u>(895,155)</u>	<u>(580,047)</u>
Cash flows from financing activities			
Proceeds on new loans		381,744	127,982
Repayments on loans (capital)		(486,230)	(615,845)
Repayments on finance lease obligation: shareholder (capital)		(4,637)	(4,600)
Repayments of finance lease obligation: other (capital)		(112)	(848)
Cash receipts from consumer deposits		25,502	22,340
		<u>(83,733)</u>	<u>(470,971)</u>
Net (decrease)/increase in cash and cash equivalents		-	(1)
Cash and cash equivalents at the beginning of the year		30	31
Cash and cash equivalents at the end of the year		<u>30</u>	<u>30</u>

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Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Performance

Revenue

Revenue from exchange transactions	11,585,560	-	11,585,560	11,718,323	132,763	
Other income	-	-	-	279,884	279,884	1
Revenue from non-exchange transactions	203,704	-	203,704	203,704	-	
Total revenue	11,789,264	-	11,789,264	12,201,911	412,647	

Cost of sales

Cost of sales	(5,624,094)	-	(5,624,094)	(5,593,972)	30,122	
Gross margin	6,165,170	-	6,165,170	6,607,939	442,769	

Expenditure

Employee related costs	(1,080,882)	(19,748)	(1,100,630)	(1,090,096)	10,534	
Contracted services	(880,814)	32,601	(848,213)	(696,016)	152,197	2
General expenditure	(825,295)	80,679	(744,616)	(635,204)	109,412	3
Depreciation	(311,909)	-	(311,909)	(309,302)	2,607	
Provision for bad debts	(1,467,295)	(270,536)	(1,737,831)	(2,043,242)	(305,411)	4
Total operating expenses	(4,566,195)	(177,004)	(4,743,199)	(4,773,860)	(30,661)	

Operating surplus

	1,598,975	(177,004)	1,421,971	1,834,079	412,108	
Interest revenue	152,803	(15,085)	137,718	192,602	54,884	5
Finance costs	(364,535)	56,325	(308,210)	(272,956)	35,254	6
	(211,732)	41,240	(170,492)	(80,354)	90,138	

Surplus for the year

	1,387,243	(135,763)	1,251,480	1,753,725	502,245	
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Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Financial Statements

Figures in Rand thousand

1. The favourable variance on Other income is attributable to the recognition of developer funded assets and bulk contributions received during the year.
2. The under expenditure in Contracted services is as a result of efficiencies achieved through the insourcing of certain functions as well as infrastructure breakdowns and failure rates being lower than anticipated in the budget.
3. The under expenditure in General expenditure is mainly due to the disaster management fund which was originally budgeted for as required by CoJ's Disaster Management Services unit but no claims were submitted.
4. The contribution towards the Provision for bad debts was higher than anticipated and this is as a result of poor payment levels which are currently below the budgeted payment levels of 85%, customers are continuing to default in their current and old debts.
5. The variance in Interest revenue is attributable to a favourable cash balance achieved by the entity throughout the financial year as well as the impact of poor payment levels which resulted in an increasing debtors book and increasing interest on outstanding debt.
6. The under expenditure in Finance costs is due to capital drawdowns occurring later in the financial year than previously anticipated in the budget.

Johannesburg Water (SOC) Limited

(Registration number 2000/029271/30)

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Position as at 30 June 2019

Assets

Current Assets

Inventories	84,345	5,435	89,780	43,950	(45,830)	1
Trade receivables with group companies	4	-	4	623	619	
Loans to shareholder	355,030	526,335	881,365	1,154,747	273,382	2
Other receivables	17,677	3,534	21,211	46,829	25,618	3
Consumer debtors: Exchange transactions	2,443,608	419,858	2,863,466	2,878,850	15,384	
Cash and cash equivalents	30	-	30	30	-	
	2,900,694	955,162	3,855,856	4,125,029	269,173	

Non-Current Assets

Property, plant and equipment	10,974,852	44,691	11,019,543	11,322,601	303,058	4
Intangible assets	-	-	-	38,981	38,981	
	10,974,852	44,691	11,019,543	11,361,582	342,039	

Total Assets

	13,875,546	999,853	14,875,399	15,486,611	611,212	
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Liabilities

Current Liabilities

Trade payables with group companies	11,702	-	11,702	56,757	45,055	5
Loans from shareholder	1,753,116	(129,244)	1,623,872	2,016,576	392,704	6
Finance lease obligation: Shareholder	6,802	-	6,802	5,794	(1,008)	
Trade and other payables from exchange transactions	1,168,799	617,479	1,786,278	1,682,157	(104,121)	7
Provisions	88,878	391,628	480,506	26,991	(453,515)	8
	3,029,297	879,863	3,909,160	3,788,275	(120,885)	

Non-Current Liabilities

Loans from shareholder	1,603,069	705,527	2,308,596	2,319,414	10,818	
Finance lease obligation: Shareholder	21,029	(12,758)	8,271	8,604	333	
Retirement benefit obligation	90,826	(15,529)	75,297	65,459	(9,838)	
Consumer deposits	-	-	-	344,474	344,474	
	1,714,924	677,240	2,392,164	2,737,951	345,787	

Total Liabilities

	4,744,221	1,557,103	6,301,324	6,526,226	224,902	
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Net Assets

	9,131,325	(557,250)	8,574,075	8,960,385	386,310	
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Johannesburg Water (SOC) Limited

(Registration number 2000/029271/30)

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Contribution from Shareholder	1	-	1	1	-	
	-	-	-	-	-	
Accumulated surplus	9,131,324	(557,250)	8,574,074	8,960,384	386,310	
Total Net Assets	9,131,325	(557,250)	8,574,075	8,960,385	386,310	

1. The inventory balance is below budget due to the significant increase in the provision for obsolete stock as related to prepaid meters. These prepaid meters were acquired in 2008, and were unable to be deployed as the Mazibuko court case suspended all roll outs of the prepaid meters. When the roll out program resumed in 2012, these meters were deemed unfit for purpose and were transferred to operations for the meters to be used as conventional meters. This has since also proved to be unsuccessful resulting in the increased contribution to obsolescence.
2. Loans to Shareholder balance is over budget predominantly due to amounts related to credit balances that were needing to be paid over from the COJ as confirmed in 2018. The budget anticipated receipt of this amount during 2018/2019 however COJ failed to pay over the amount despite repeated demands and escalations from the company for payment thereof. The amount remains outstanding at June 2019.
3. Other receivables exceeded the budget mainly due to current amounts due from South African Revenue Services for VAT.
4. Property, Plant and Equipment is above budget as a result of the capital expenditure program for the year implemented at a rate higher than anticipated in the budget.
5. Trade payables with group companies balance is significantly higher than budget as the budget did not take cognisance of the late audit adjustment for June 2018 conducted in November 2018 to reflect an amount due to City Power for an account that could not be serviced with an invoice. To date the invoice has not been received resulting in the amount still being due to City Power. Refer to note 6.
6. The variance of Loans from shareholders is due to monies owed to the City of Johannesburg in respect of revenue service and power charges not settled.
7. The variance in Trade payables is attributable to the accruals raised at year end which are lower when compared to the budget.
8. The variance in provisions is attributable to leave pay and 13th cheque provisions which were budgeted under provisions but were classified under Trade and other payables in the Annual Financial Statements.

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Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Cash Flow Statement

Cash flows from operating activities

Receipts

Cash receipts from customers	11,312,098	18,697	11,330,795	10,387,322	(943,473)	
Cash receipts from government grants and bulk service contribution	-	-	-	380,231	380,231	
Interest revenue	152,803	(15,000)	137,803	88,865	(48,938)	1
	11,464,901	3,697	11,468,598	10,856,418	(612,180)	

Payments

Cash paid to suppliers and employees	(9,767,404)	631,652	(9,135,752)	(9,606,387)	(470,635)	
Finance costs	(364,535)	56,239	(308,296)	(271,143)	37,153	2
	(10,131,939)	687,891	(9,444,048)	(9,877,530)	(433,482)	

Net cash flows from operating activities

	1,332,962	691,588	2,024,550	978,888	(1,045,662)	
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Cash flows from investing activities

Purchase of property, plant and equipment	(900,640)	(28,000)	(928,640)	(892,680)	35,960	
Proceeds from disposal of plant and equipment	-	-	-	89	89	
Purchase of intangible assets	-	-	-	(7,297)	(7,297)	
Proceeds from post retirement notional account	-	-	-	4,733	4,733	

Net cash flows from investing activities

	(900,640)	(28,000)	(928,640)	(895,155)	33,485	
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Cash flows from financing activities

Proceeds of new loans	319,141	(49,332)	269,809	381,744	111,935	3
Repayment on loans	(751,463)	(614,256)	(1,365,719)	(486,230)	879,489	4
Repayment of finance lease obligation: shareholders	-	-	-	(4,637)	(4,637)	
Repayment of finance lease obligation: Other	-	-	-	(112)	(112)	
Cash receipts from consumer deposits	-	-	-	25,502	25,502	

Net cash flows from financing activities

	(432,322)	(663,588)	(1,095,910)	(83,733)	1,012,177	
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Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
Cash and cash equivalents at the beginning of the year	30	-	30	30	-	
Cash and cash equivalents at the end of the year	30	-	30	30	-	

1. The variance is attributable to a lower collection of interest on outstanding debtors.
2. The variance is due to capital drawdowns occurring later in the financial year than previously anticipated in the budget.
3. The proceeds from loans are higher than anticipated in the budget due to the capital programs being implemented at an higher rate than previously assumed thereby resulting in an increased drawdown of loans at year end.
4. The repayment of loans was lower than previously anticipated in the budget.

The approved adjusted budget 2018/2019, 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 or at Johannesburg Water (SOC) Limited, 17 Harrison Street, Marshalltown, Johannesburg, 2107.

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 2000/029271/30)

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Basis of preparation

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

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

Useful life of wastewater, water networks and other non-current assets

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

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

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

Post retirement benefits

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

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

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 16.

Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for debt impairment of consumer debtors

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

Debtors with credit balance allocation

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

With regards to credit balances in consumer debtors, the City of Johannesburg Metropolitan Municipality allocates credit balances applicable to each entity using the 3 year billing for customers with credit balances at account level. In the event that the customer has no current billing and a credit balance exists, a 3 year annualised overall billed revenue will be used to determine the allocation rate. Management have applied judgment in determining the allocation basis.

Valuation of water stock

The value of water held at year end is based on water volumes held in reservoirs, towers and pipelines multiplied by the cost of water at that date.

1.2 Property, plant and equipment

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

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

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

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

Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.2 Property, plant and equipment (continued)

Cost model

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

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

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

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

Item	Useful life
Buildings	5 - 30 years
Communication equipment	2 - 13 years
Furniture and Fixtures	2 - 25 years
Computer equipment	4 - 24 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 15 years
Minor plant	5 - 16 years
Office equipment	5 - 18 years
Plant and machinery	10 - 40 years
Wastewater and water networks	
• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 16 years
• Water meters	4 - 13 years
• Pipelines and other	60 - 100 years

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

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

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

1.3 Intangible assets

An intangible asset is recognised when:

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

Johannesburg Water (SOC) Limited

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Intangible assets (continued)

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

Cost model

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

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

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

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

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

Item	Useful life
Computer software, other	3 - 6 years

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

1.4 Financial instruments

Initial recognition

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

Financial instruments are recognised initially at fair value.

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

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

Fair value determination

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

Loans and receivables

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

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Financial instruments (continued)

Payables from exchange transactions

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

Cash and cash equivalents

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

Impairment of Financial Assets

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

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

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

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

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

Derecognition

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

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

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

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Financial instruments (continued)

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

Gains and losses for Financial Assets

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

Gains and losses for Financial Liabilities

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

1.5 Income Tax

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

1.6 Leases

Finance leases

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

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

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

Operating leases

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

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

1.7 Inventories

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

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

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

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Inventories (continued)

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

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

1.8 Impairment of non-financial assets

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

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

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

1.9 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

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

Other post retirement obligations

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

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Accounting Policies

1.9 Employee benefits (continued)

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

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

1.10 Provisions and contingencies

Provisions are recognised when:

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

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

1.11 Bulk service contributions

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

1.12 Government Grants

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

1.13 Revenue

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

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

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

1.14 Interest Revenue

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

1.15 Borrowing costs

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

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Accounting Policies

1.16 Presentation currency and rounding

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

1.17 Budget information

The company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements. The budget is prepared for the period from July 2018 to June 2019 which is in alignment to the presentation of the financial statements reporting period.

Appropriate variance explanations are provided when the variances, favourable or adverse, are regarded as material, or when they exceed 10%.

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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 34 - Separate Financial Statements
- GRAP 35 - Consolidated Financial Statements
- GRAP 36 - Investments in Associates and Joint
- GRAP 37 - Joint Arrangements
- GRAP 38 - Disclosure of Interests in Other Entities
- GRAP 110 - Living and Non-living Resources

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

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3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12,208	-	12,208	12,208	-	12,208
Buildings	390,453	(244,899)	145,554	381,464	(239,925)	141,539
Plant and machinery	3,062,323	(883,849)	2,178,474	2,896,208	(785,511)	2,110,697
Furniture and fixtures	26,151	(15,238)	10,913	22,834	(13,974)	8,860
Motor vehicles	29,554	(16,295)	13,259	24,574	(13,163)	11,411
Office equipment	26,745	(14,151)	12,594	18,942	(12,932)	6,010
Computer equipment	103,539	(75,056)	28,483	93,464	(67,837)	25,627
Communication equipment	27,660	(19,903)	7,757	26,808	(17,257)	9,551
Laboratory equipment	41,202	(35,256)	5,946	40,663	(32,141)	8,522
Minor plant	171,711	(96,717)	74,994	168,680	(82,650)	86,030
Inventory - Capital	56,885	-	56,885	58,259	-	58,259
Wastewater network	3,244,479	(295,396)	2,949,083	3,022,957	(264,043)	2,758,914
Water network	7,317,846	(1,491,395)	5,826,451	6,086,913	(772,290)	5,314,623
Total	14,510,756	(3,188,155)	11,322,601	12,853,974	(2,301,723)	10,552,251

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	12,208	-	-	-	-	-	12,208
Buildings	141,539	8,988	-	-	-	(4,973)	145,554
Plant and machinery	2,110,697	166,115	-	-	-	(98,338)	2,178,474
Furniture and fixtures	8,860	3,368	(8)	-	-	(1,307)	10,913
Motor vehicles	11,411	6,608	-	-	-	(4,760)	13,259
Office equipment	6,010	7,823	(3)	-	-	(1,236)	12,594
Computer equipment	25,627	12,269	(99)	-	-	(9,314)	28,483
Communication equipment	9,551	855	(2)	-	-	(2,647)	7,757
Laboratory Equipment	8,522	539	-	-	-	(3,115)	5,946
Minor plant	86,030	3,060	(6)	-	-	(14,090)	74,994
Inventory - capital	58,259	-	-	(1,374)	-	-	56,885
Wastewater network	2,758,914	172,386	-	-	49,136	(31,353)	2,949,083
Water network	5,314,623	517,276	(344)	1,374	116,563	(123,041)	5,826,451
	10,552,251	899,287	(462)	-	165,699	(294,174)	11,322,601

Land and buildings

Land and buildings to the value of R 157,762 (2018: R 153,747) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

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

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

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Impairment loss	Total
Land	12,208	-	-	-	-	-	-	12,208
Buildings	145,375	1,489	-	-	-	(5,319)	(6)	141,539
Plant and machinery	2,027,950	171,165	-	-	-	(88,418)	-	2,110,697
Furniture and fixtures	8,189	2,011	(2)	-	-	(1,338)	-	8,860
Motor vehicles	15,646	112	-	-	-	(4,347)	-	11,411
Office equipment	4,798	2,624	(4)	-	-	(1,408)	-	6,010
Computer equipment	32,076	4,296	(273)	-	-	(10,472)	-	25,627
Communication equipment	12,078	170	-	-	-	(2,697)	-	9,551
Laboratory Equipment	12,106	92	-	-	-	(3,676)	-	8,522
Minor plant	98,455	1,738	(36)	-	-	(14,127)	-	86,030
Inventory - capital	69,001	-	-	(10,742)	-	-	-	58,259
Wastewater network	2,465,462	196,198	-	-	125,914	(28,660)	-	2,758,914
Water network	5,094,185	205,621	-	10,742	116,317	(112,242)	-	5,314,623
	9,997,529	585,516	(315)	-	242,231	(272,704)	(6)	10,552,251

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

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

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3. Property, plant and equipment (continued)

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

	2019			2018		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office Equipment	4,507	(4,448)	59	4,507	(4,405)	102
Motor Vehicles	29,554	(16,295)	13,259	24,574	(13,163)	11,411
Total	34,061	(20,743)	13,318	29,081	(17,568)	11,513

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3. Property, plant and equipment (continued)

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

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Water network	687,509	526,305
Plant and machinery	420,185	525,655
Wastewater network	174,720	207,478
Buildings	40,674	45,893
Office equipment	3,262	584
Furniture and fixtures	2,655	1,092
Laboratory equipment	136	96
Minor plant	87	33
IT equipment	12	2,497
	1,329,240	1,309,633

Carrying value of property, plant and equipment in the process of being constructed or developed, that is taking a significantly longer period of time to complete than expected, as at 30 June 2019.

Project name	Reason for delay	Amount
BWW602 - Bushkoppies Balancing Tank	Project delayed by 2 years due to previous community protests demanding for 30% subcontracting which was not feasible. Project completion date moved from January 2018 to November 2019.	84,794
Construction of Randburg Depot	Project delayed by 2.5 years due to non- performance of the contractor which resulted in termination. Retendering process was initiated and resulted in a non-award. Tender re-advertised and at BEC stage. Planned completion date moved from February 2018 to June 2020.	33,023
UR1327 - Corridors of Freedom Perth Empire	Project delayed by 3 years due to budget reduction. The Project completion date moved from December 2018 to December 2021, subject to approval of budget.	12,685
UR1328 - Turffontein Redevelopment Corridor Water	Project delayed by 2 years due to budget reduction. The Project completion date moved from December 2018 to December 2020, subject to approval of next FY budget.	11,635
UR1314 -Diepsloot Sewer Pipeline & Bridge Repair	Project delayed by 2 years due to budget reduction. Project at tender and completion date for phase 1 moved from December 2018 to December 2020.	11,304
OM1300 - Bulk Meters	Project delayed by 2 years due to Letswamotswe contract termination. Retendering process underway, Project completion date moved from June 2018 to June 2020.	10,235
UR1315-Louis Botha BRT Corridor Water Renewal	Project delayed by 2 years due to budget reduction. The Project completion date for phase 1 moved from December 2018 to December 2020.	9,645
UR1312 - Sandton Water upgrade	Project delayed by 2 years due to budget reduction. Designs were completed. The Project completion date to be moved from December 2019 to December 2021 subject to availability of budget.	9,251
UR1405 -Louis Botha BRT Corridor Sewer Renewal	Project delayed by 3 years due to budget reduction. The Project completion date for phase 1 moved from December 2018 to December 2020, remaining phases will be completed in December 2021 subject to availability of budget.	8,645
UR705 Bryanston District : Upgrade Water	Project delayed by 10 years due to contractor liquidation. Budget reduction and subsequent remodelling of the master plan on hydraulics indicated that the bulk supply line could be deferred as some planned developments were behind. The Project has been re-initiated to complete the outstanding works and planned completion date moved from December 2009 to December 2020 subject to approval of additional budget.	3,302

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3. Property, plant and equipment (continued)

UFW914 - Infrastructure Upgrade - Eldorado Park	Project delayed by 4 years due to budget reduction. The Project completion date moved from June 2017 to July 2021, subject to availability of funding.	3,107
UFW913 - Infrastructure Upgrade - Alexandra	Project delayed by 3 years due to budget reduction. The Project completion date for phase 1 moved from June 2017 to July 2020, subject to availability of funding.	3,086
BWW513 NW: Storm dam pumpstation	Project delayed by 2,5 years due to flooding of works and subsequently poor workmanship. The contractor was instructed to do remedial works at his own cost. Project was initially completed in June 2019, however a dispute was lodged by the contractor relating to contractual claims. The dispute resolution process is underway and is at adjudication stage.	2,587
UR1311 - Linbro Park Water Upgrade	Project delayed by 1.6 years due to budget reduction. The Project completion date moved from December 2018 to July 2020.	2,520
UR1319 - Witpoortjie Water Upgrade	Project delayed by 2.5 years due to inadequate budget. The Project completion date moved from June 2018 to December 2020, subject to availability of funding.	1,892
UR1408 -Perth Empire BRT Corridor Sewer Renewal	Project delayed by 3 years due to budget reduction. The Project completion date moved from December 2018 to December 2021 subject to approval of next FY budget.	1,868
UFW915 - Infrastructure Upgrade - Ivory Park	Project delayed by 4 years due to budget reduction. The Project completion date moved from June 2017 to July 2021, subject to availability of funding.	1,317
UR1302 - Carlswald Water Upgrade	Project delayed by 4,5 years due to land acquisition challenges, however COJ approved the budget for land acquisition and process is underway. Project completion date moved from June 2018 to December 2022 subject to availability of budget.	515
EI1308 - Carlswald Reservoir 10MI	Project delayed by 4,5 years due to land acquisition challenges, however COJ approved the budget for land acquisition and the process is underway. Project completion date moved from June 2018 to December 2022 subject to availability of budget.	135
		<u>211,546</u>

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3. Property, plant and equipment (continued)

Carrying value of property, plant and equipment in the process of being constructed or developed, that is taking a significantly longer period of time to complete than expected, as at 30 June 2018.

Project name	Reason for delay	Amount
BWW513: Northern Works Storm Dams	Project delayed by 1.8 years due to flooding, leaks from works are delaying completion of the snags - remedial works. Project completion date moved from January 2017 to October 2018.	138,186
UFW 904- SIURP IN SB7B	Project delayed by 2,5 years due to contractor terminated due to non performance. Tender process to appoint contractor to complete project resulted in a non-award. Another tender process has been initiated.	87,657
UFW901 -SIURP IN SB12	Project delayed by 4,5 years. Project complete but cannot be commissioned because it is linked to completion of Protea Glen reservoir upgrade and construction of Protea Glen pumpstation. Completion is expected in November 2018.	63,047
BWW602: Bushkoppies Balancing Tank	Project delayed by 1.3 years due to community protest. Project completion date moved from January 2018 to April 2019.	59,052
UR634: Ennerdale District: Upgrade Water Infrastructure	Project delayed by 4.8 years due to power connection problems and vandalism. Project completion date moved from December 2013 to August 2018.	47,277
Construction of Randburg Depot	Project delayed by 2 years due to non-performance of the contractor which resulted in termination. Project at retender stage. Project completion date moved from February 2018 to February 2020.	45,798
OM1300: Bulk Meters	Project delayed by 1.5 years due to contract termination. Project completion date moved from June 2018 to December 2019.	32,534
UR1328: Turffontein Redevelopment Corridor Water	Project delayed by 2 years due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	11,635
UR1327: Corridors of Freedom Perth Empire	Project delayed by 2 years due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	10,794
UR1315-Louis Botha BRT Corridor Water Renewal	Project delayed by 2 year due project prioritisation. Project completion date for phase 1 moved from December 2018 to December 2020.	9,645
UR1312 - Sandton Water upgrade	Project delayed by 1 year due to project prioritisation. Project completion date to be moved from December 2019 to December 2020.	9,251
UR1314: Diepsloot Sewer Pipeline & Bridge Repair	Project delayed by 1 year due to project prioritisation. Project at tender stage. Project completion date for phase 1 moved from December 2018 to December 2019.	8,745
PS1401: Investigations Water & Sewer Networks	Project delayed by 2.5 year - Current costs are due to investigative costs of approximately 45 reservoirs. Costs will be transferred to relevant line items once panel of consultants is finalised and subsequently contractors are appointed to execute the works. The project completion date moved from June 2017 to December 2019.	8,255
UR1405: Louis Botha Bus Rapid Transit (BRT) Corridor Sewer Renewal	Project delayed by 2 year due to project prioritisation. Project completion date for phase 1 moved from December 2018 to December 2020.	6,289
UR705 Bryanston District : Upgrade Water	Project delayed by 8.4 years due to contractor liquidation and subsequent award of the panel of contractors to complete the works. Project completion date moved from December 2009 to March 2019.	3,302
UFW914 - Infrastructure Upgrade - Eldorado Park	Project delayed by 3 years due to project prioritisation. Project completion date moved from June 2017 to July 2020, subject to availability of funding.	3,107

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3. Property, plant and equipment (continued)

UFW913: Infrastructure Upgrade - Alexandra	Project delayed by 3 years due to project prioritisation. Project completion date moved from June 2017 to July 2020, subject to availability of funding.	3,086
UR1308 - Alexandra Park Water Upgrade	Project delayed by 2 years due to project prioritisation, Designs complete and construction expected to commence in the 2019/2020 financial year. Assets under construction cost related to professional fees.	2,696
UR1311: Linbro Park Water Upgrade	Project delayed by 2 year due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	2,518
UR1319: Witpoortjie Water Upgrade	Project delayed by 1 year due to project prioritisation. The Project completion date moved from June 2018 to June 2019, subject to availability of funding.	1,892
UR1408: Perth Empire Bus Rapid Transit (BRT) Corridor Sewer Renewal	Project delayed by 2 years due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	1,868
UFW915: Infrastructure Upgrade - Ivory Park	Project delayed by 3 years due to project prioritisation. Project completion date moved from June 2017 to July 2020, subject to availability of funding.	1,317
UR1316 - Robertville Water Upgrade	Project delayed by 2 years due to project prioritisation, Designs complete and construction expected to commence in the 2018/2019 financial year. Assets under construction cost related to professional fees.	987
BWW1406 - EN: Infrastructure Renewal Plan	Project delayed by 1 year. Project on hold while still in design phase to consider alternative funding options.	613
UR1302: Carlswald Water Upgrade	Project delayed by 2.5 years due to land acquisition processes which is currently underway. Project completion date moved from June 2018 to December 2020.	515
EI1308 - Carlswald Reservoir 10MI	Project delayed by 2.5 years due to land acquisition processes which is currently underway. Project completion date moved from June 2018 to December 2020	135
		<u>560,201</u>

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3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Employee related costs	641,298	588,267
Operating expenses	464,100	391,936
Total	1,105,398	980,203

4. Intangible assets

	2019			2018		
	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	154,739	(117,485)	37,254	147,562	(102,475)	45,087
Total	156,466	(117,485)	38,981	149,289	(102,475)	46,814

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Servitudes	1,727	-	-	1,727
Computer software	45,087	7,297	(15,130)	37,254
	46,814	7,297	(15,130)	38,981

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Servitudes	1,727	-	-	1,727
Computer software	61,464	473	(16,850)	45,087
	63,191	473	(16,850)	46,814

Intangible assets in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Intangible assets

Intangible assets under development	5,305	4,983
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5. Inventories		
Raw materials, components	88,576	69,163
Water	12,603	17,715
Subtotal	101,179	86,878
Provision for inventory write downs	(57,229)	(1,698)
	43,950	85,180
6. Trade receivables and payables with group companies		
Trade payables with group companies		
City Power SOC Ltd	(41,083)	(41,083)
Johannesburg City Parks NPC	(1,328)	(269)
Johannesburg Roads Agency SOC Ltd	(13,992)	(21,044)
Johannesburg Metropolitan Bus Services SOC Ltd t/a Metrobus	-	(3)
Johannesburg Theatre SOC Ltd	(56)	-
City of Johannesburg Property Company SOC Ltd	(298)	(1,684)
	(56,757)	(64,083)

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

Trade receivables with group companies

Johannesburg Roads Agency SOC Ltd	100	29
Johannesburg Development Agency SOC Ltd	407	407
City Power SOC Ltd	116	-
	623	436

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

At 30 June 2019, R407 (2018: R0) were past due but not impaired.

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

180 days past due	407	-
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7. Loans to (from) shareholders

Loans to Shareholder

City of Johannesburg Metropolitan Municipality - Other loans	556,435	420,766
City of Johannesburg Metropolitan Municipality - Sweeping account	375,194	107,186
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	30,183	76,406
City of Johannesburg Metropolitan Municipality - Post retirement benefit	61,495	62,168
City of Johannesburg Metropolitan Municipality - Capex drawdown	131,440	10,744
	1,154,747	677,270

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

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

Loans from Shareholder - Current

City of Johannesburg Metropolitan Municipality - Other short term loans	(1,528,123)	(1,431,660)
City of Johannesburg Metropolitan Municipality - Current portion of long term loans	(488,453)	(476,342)
	(2,016,576)	(1,908,002)

Loans from Shareholder - Non-current

City of Johannesburg Metropolitan Municipality - Conduit mirror and FDA loans	(2,319,414)	(2,315,698)
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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 2019, R 98 (2018: R220) were past due but not impaired.

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

30 days past due	98	6
60 days past due	-	1
90 days past due	-	13
120 days past due	-	199

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror and FDA loans

Loans at the beginning of the year	(2,792,040)	(3,206,590)
New loans	(502,440)	(136,706)
Interest for the year	(269,290)	(302,178)
Repayments for the year - Interest	269,673	302,561
Repayments for the year - Capital	486,230	550,873
Balance at end of year	(2,807,867)	(2,792,040)

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7. Loans to (from) shareholders (continued)

Conduit loans are repayable in equal quarterly instalments over a period of 10 years from loan acquisition. These unsecured loans bear interest at a fixed rate of 9.31% to 11.23% (2018: 9.31% to 11.23%).

The second French Development Agency (FDA) loan is repayable in equal half yearly instalments over a period of 15 years, commencing 15 November 2014. These unsecured loans bear interest at a fixed rate of 7.4% and 7.47% (2018: 7.4% and 7.47%).

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	-	(64,972)
Interest for the year	-	(6,170)
Repayments for the year - Interest	-	6,170
Repayments for the year - Capital	-	64,972
Balance at the end of the year	-	-

The loan has been fully repaid at 30 June 2018.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	375,194	107,186
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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 6.72% (2018: 6.46%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due

- within one year	6,970	5,607
- in second to fifth year inclusive	9,932	8,613
	16,902	14,220
less: future finance charges	(2,504)	(1,794)
Present value of minimum lease payments	14,398	12,426

Present value of minimum lease payments due

- within one year	5,794	4,579
- in second to fifth year inclusive	8,604	7,847
	14,398	12,426

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

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9. Finance lease obligation: Other

Minimum lease payments due

- within one year

- 115

- 115

less: Future finance charges

- (3)

Present value of minimum lease payments

- 112

Present value of minimum lease payments due

- within one year

- 112

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

10. Other receivables

Sundry Debtor

39,989 17,134

Prepaid expenses

7,672 5,798

Allowance for impairment

(832) (2,808)

Total other receivables

46,829 20,124

Sundry debtors consist predominantly of deposits paid for utility services as well as current amounts due from South African Revenue Services for VAT.

Credit quality of other receivables

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

Other receivables past due but not impaired

At 30 June 2019 R296 (2018: R243) was past due but not impaired.

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

30 days past due	21	132
60 days past due	6	69
90 days past due	1	-
120 days past due	25	42
180 days past due	243	-

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10. Other receivables (continued)

Other receivables impaired

As of 30 June 2019, other receivables of R39,989 (2018: R17,134) were considered for impairment testing. The allowance for impairment losses for the period was R832 (2018: R2,808).

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

Current	38,861	14,069
1 - 30 days	21	132
31 - 60 days	6	69
61 - 90 days	1	4
91 - 120 days	25	52
121 - 365 days	243	297
> 365 days	832	2,511
Total other receivables	39,989	17,134

Reconciliation of allowance for impairment of other receivables

Opening balance	(2,808)	(2,727)
Allowance for impairment losses	(535)	(296)
Reversed during the year	-	215
Write off	2,511	-
	(832)	(2,808)

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 24). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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11. Consumer debtors: Exchange transactions

Trade receivables	12,247,524	9,603,997
Allowance for impairment	(9,368,674)	(7,272,967)
	2,878,850	2,331,030

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

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

Credit quality of consumer debtors

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

Summary of consumer debtors by classification

Domestic consumers

Current	512,090	428,953
30 days	392,370	332,528
31 - 60 days	317,105	427,505
61 - 90 days	276,665	75,368
91 - 120 days	326,524	206,040
121 - 365 days	1,957,131	1,564,281
> 365 days	3,821,927	2,609,069
	7,603,812	5,643,744
Less: Allowance for impairment	(6,318,589)	(4,530,598)
	1,285,223	1,113,146

Domestic consumers - Past due and impaired

30 days	(84,752)	(60,188)
31 - 60 days	(68,495)	(77,378)
61 - 90 days	(59,760)	(13,642)
91 - 120 days	(326,524)	(206,040)
121 - 365 days	(1,957,131)	(1,564,281)
> 365 days	(3,821,927)	(2,609,069)
	(6,318,589)	(4,530,598)

Domestic consumers - Current, past due and not impaired

Current	512,090	428,953
30 days	307,618	272,340
31 - 60 days	248,610	350,127
61 - 90 days	216,905	61,726
	1,285,223	1,113,146

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11. Consumer debtors: Exchange transactions (continued)

Commercial consumers

Current	520,484	463,518
30 days	270,138	303,643
31 - 60 days	213,349	203,505
61 - 90 days	168,627	28,156
91 - 120 days	204,521	115,393
121 - 365 days	864,065	702,811
> 365 days	1,885,590	1,797,319
	<u>4,126,774</u>	<u>3,614,345</u>
Less: Allowance for impairment	(2,809,287)	(2,524,031)
	1,317,487	1,090,314

Commercial consumers - Past due and impaired

91 - 120 days	(156,608)	(102,490)
121 - 365 days	(767,089)	(624,222)
> 365 days	(1,885,590)	(1,797,319)
	<u>(2,809,287)</u>	<u>(2,524,031)</u>

Commercial consumers - Current, past due and not impaired

Current	520,484	463,518
30 days	270,138	303,643
31 - 60 days	213,349	203,505
61 - 90 days	168,627	28,156
91 - 120 days	47,913	12,903
121-365 days	96,976	78,589
	<u>1,317,487</u>	<u>1,090,314</u>

National and provincial government

Current	89,241	90,478
30 days	54,038	15,682
31 - 60 days	75,238	17,756
61 - 90 days	57,623	3,654
91 - 120 days	21,379	9,616
121 - 365 days	49,781	36,072
> 365 days	169,638	172,650
	<u>516,938</u>	<u>345,908</u>
Less: Allowance for impairment	(240,798)	(218,338)
	276,140	127,570

National and provincial government - Past due and impaired

91 - 120 days	(21,379)	(9,616)
121 - 365 days	(49,781)	(36,072)
> 365 days	(169,638)	(172,650)
	<u>(240,798)</u>	<u>(218,338)</u>

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

Current	89,241	90,478
30 days	54,038	15,682
31 - 60 days	75,238	17,756
61 - 90 days	57,623	3,654
	<u>276,140</u>	<u>127,570</u>

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11. Consumer debtors: Exchange transactions (continued)		
Total consumer debtors		
Current	1,121,815	982,949
30 days	716,546	651,853
31 - 60 days	605,692	648,766
61 - 90 days	502,915	107,178
91 - 120 days	552,424	331,049
121 - 365 days	2,870,977	2,303,164
> 365 days	5,877,155	4,579,038
	<u>12,247,524</u>	<u>9,603,997</u>
Less: Allowance for impairment	(9,368,674)	(7,272,967)
	<u>2,878,850</u>	<u>2,331,030</u>
Total consumer debtors - Past due and impaired		
30 days	(84,752)	(60,188)
31 - 60 days	(68,495)	(77,378)
61 - 90 days	(59,760)	(13,642)
91 - 120 days	(504,511)	(318,146)
121 - 365 days	(2,774,001)	(2,224,575)
> 365 days	(5,877,155)	(4,579,038)
	<u>(9,368,674)</u>	<u>(7,272,967)</u>
Total consumer debtors - Current, past due but not impaired		
Current	1,121,815	982,949
3	631,794	591,666
31 - 60 days	537,197	571,388
61 - 90 days	443,155	93,537
91 - 120 days	47,913	12,903
121 - 365 days	96,976	78,589
	<u>2,878,850</u>	<u>2,331,032</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(7,272,967)	(5,631,180)
Contributions to allowance	(2,488,784)	(2,083,234)
Debt impairment written off against allowance	393,077	441,447
	<u>(9,368,674)</u>	<u>(7,272,967)</u>
12. Consumer deposits		
Water	<u>344,474</u>	<u>318,972</u>

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13. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	Loans and Receivables	Other	Total
Consumer debtors	2,878,850	-	2,878,850
Loans to shareholders	1,154,747	-	1,154,747
Other receivables	15,957	-	15,957
Prepayments	-	7,672	7,672
South African Revenue Services	-	23,200	23,200
Trade receivables with group companies	623	-	623
Cash and cash equivalents	30	-	30
	4,050,207	30,872	4,081,079

Financial liabilities

	Financial Liabilities	Other	Total
Loans from shareholders	4,335,990	-	4,335,990
Trade and other payables from exchange transactions	954,524	-	954,524
Customer prepayments	-	711,862	711,862
South African Revenue Services	-	15,770	15,770
Trade payables with group companies	56,757	-	56,757
Provisions	-	26,991	26,991
Finance lease obligation: Shareholder	14,398	-	14,398
Consumer deposits	344,474	-	344,474
	5,706,143	754,623	6,460,766

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13. Financial instruments disclosure (continued)

2018

Financial assets

	Loans and Receivables	Other	Total
Consumer debtors	2,331,030	-	2,331,030
Loans to shareholders	677,270	-	677,270
Other receivables from non-exchange transactions	14,326	-	14,326
Pre-payments	-	5,798	5,798
Cash and cash equivalents	30	-	30
Trade receivables with group companies	436	-	436
	3,023,092	5,798	3,028,890

Financial liabilities

	Financial Liabilities	Other	Total
Loans from shareholders	4,223,700	-	4,223,700
Trade and other payables from exchange transactions	930,264	-	930,264
Customer prepayments	-	749,667	749,667
South African Revenue Services	-	119,363	119,363
Finance lease obligation: Shareholder	12,426	-	12,426
Finance lease obligation: Other	112	-	112
Provisions	-	16,453	16,453
Trade payables with group companies	64,083	-	64,083
Consumer deposits	318,972	-	318,972
	5,549,557	885,483	6,435,040

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14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	30	30
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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 2019 is R375 million (2018: R107 million).

Bank	Account Type	Account number		
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000170461	-	-
Standard bank	Revenue	000196819 (closed on 12 July 2018)	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			-	-

15. Contribution from Shareholder

Authorised

1000 Ordinary shares of R1 each

1	1
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Issued

200 Ordinary shares of R1 each

1	1
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16. 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	16.1	24,577	26,058
Provision:Post-Retirement Gratuity Obligation	16.2	40,882	45,381
Balance at end of year		65,459	71,439

16.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 0 current employees (2018: 1 employees), and 51 continuation members (2018: 54 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit funding method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

Opening balance		26,058	30,933
Benefits paid		(2,141)	(2,172)
Current service costs		19	14
Interest costs		2,244	2,609
Actuarial gain		(1,603)	(5,326)
Balance at end of year		24,577	26,058

Key assumptions used

Assumptions used on last valuation on 30 June 2019.

Discount rates used		9.10 %	9.09 %
Expected increase in salaries		6.90 %	7.31 %

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 for salary and medical inflation will have the following impact:

	-1%	0%	1%
Liability	23,984	24,577	25,034
Percentage change	-2.41%	0%	1.86%

Post Retirement Mortality

	-20%	0%	20%
20% adjustment to mortality rate	26,236	24,577	23,191
Percentage change	6.75%	0%	-5.64%

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16. 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.

16.2 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 174 employees (2018: 196 employees). Actuarial valuations are independently prepared annually using the projected unit credit funding method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

Opening balance	45,381	49,201
Benefits paid	(5,035)	(5,779)
Interest Cost	3,911	4,044
Actuarial loss	(3,375)	(2,085)
Balance at end of year	40,882	45,381

Key assumptions used

Assumptions used on last valuation on 30 June 2019.

Discount rates used	9.10 %	9.09 %
Expected increase in salaries	6.90 %	7.31 %

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 for salary inflation will have the following impact:

	-1%	0%	1%
Liability	38,744	40,882	43,163
Percentage change	-5.23%	0%	5.58%
Post Retirement Mortality			
20% adjustment to mortality rate	40,879	40,882	40,885
Percentage change	-0.01%	0%	0.01%

Five years Historical Post Retirement Obligations

The experience adjustments were calculated in the current and prior financial year. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

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16. Retirement benefit obligations (continued)

	2019	2018	2017	2016	2015
Post Retirement Obligation	65,459	71,439	80,134	89,437	86,989
Experience adjustment	(3,503)	(3,178)	(3,237)	(7,388)	(3,170)

16.3 Net expense recognised in the statement of financial performance

Post retirement medical aid plan	660	(2,703)
Post retirement gratuity plan	536	1,959
Total included in employee related costs	1,196	(744)

16.4 Defined contribution plan

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

The total company contribution to such schemes	104,832	95,884
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17. Deferred income

Unspent conditional grants comprise:

Government grants movement during the year

Grants allocated in current year	203,704	194,940
Utilised during the year	(203,704)	(194,940)
Balance at the end of the year	-	-

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

18. Trade and other payables from exchange transactions

Trade payables	871,782	849,105
Payments received in advanced	711,105	748,934
Consumer deposits	54	-
VAT	-	106,184
Accrued leave pay	48,069	44,603
Accrued bonus (13th Cheque)	29,313	26,341
Sundry payables	14,239	11,693
Operating lease payables	7,594	12,430
Total	1,682,156	1,799,290

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19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonuses	16,453	26,328	(15,789)	26,992

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonuses	18,823	12,071	(14,441)	16,453

20. Revenue from exchange transactions

Sale of water	7,421,950	6,287,835
Rendering of sanitation services	4,296,373	3,800,261
	11,718,323	10,088,096

21. Other income

Developer funded asset income	165,699	242,231
Other income	30,033	16,461
Laboratory income	1,087	1,049
Bulk service contributions received	83,065	79,624
	279,884	339,365

22. Revenue from non-exchange transactions

Government grants released	203,704	194,940
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23. Non Revenue Water

Non-Revenue Water (NRW) is included in cost of sales. The level of NRW for the year under review is 38.6% [R2.2 billion] (2018: 38.4% [R1.8 billion]). The level of unbilled unmetered consumption for the year under review is 13.7% [R766.3 million] (2018: 13% [R623.9 million]). The level of water losses (physical and commercial losses) which is part of NRW for the year under review is 24.8% [R1.4 billion] (2018: 25.5% [R1.2 billion]).

The level of physical losses for the year under review is 17.9% [R1.0 billion], (2018: 18.3% [R878.4 million]). The level of commercial losses for the year under review is 6.9% [R386.0 million], (2018: 7.1% [R340.8 million]).

It is acknowledged and accepted that a certain level of water losses cannot be avoided from a technical perspective and is considered acceptable from an economic perspective. This means the cost of interventions to reduce water losses from a technical perspective should be less than the savings to be realised. The industry norm for water losses is 18%. This norm is exceeded by the company by 6.8% [R380.4 million], (2018: 7.5% [R360.0 million]). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

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24. Operating expenses		
Allowance for debt impairment	2,043,242	1,838,974
Employee costs	1,090,096	973,536
Contracted services	319,915	285,736
Depreciation, amortisation and impairments	309,302	289,562
Contractors billing and credit control	227,626	215,759
Electricity	195,986	202,236
Store issues and direct material purchases	176,215	126,323
Lease rentals on operating lease	132,951	123,287
Other operating expenses	62,299	33,647
Sewer system charges	55,528	54,133
Security	52,138	45,826
Information technology expenses	32,080	28,429
Chemicals	26,548	23,776
Telephone and fax	18,187	17,630
Marketing and communication expenses	9,874	11,170
Insurance	8,212	9,753
Auditors remuneration	5,216	6,039
Legal expenses	3,460	2,969
Printing and stationery	3,287	3,290
Motor vehicle expenses	1,325	467
Loss on disposal of property, plant and equipment	373	263
	4,773,860	4,292,805
25. Employee costs		
Basic salaries	735,312	653,002
Other allowances	147,072	128,487
Pension costs - company contributions	111,047	102,341
Medical aid - company contributions	78,067	74,249
Leave pay	17,181	17,181
Housing benefits and allowances	6,376	5,673
Post retirement benefit plan cost (Defined contribution plan)	(4,959)	(7,397)
	1,090,096	973,536
Average number of employees employed during the year		
- Permanent	2,712	2,653
26. Interest revenue		
Interest revenue		
Interest on customers	160,675	125,047
Interest earned - sweeping account	27,867	26,010
Interest on notional accounts	4,060	4,195
	192,602	155,252
27. Finance costs		
Interest on shareholder loans	267,363	306,846
Interest on post retirement benefits	6,155	6,653
Interest on finance leases	1,036	1,524
Interest on vendors	343	-
Interest on sweeping overdraft	89	175
Interest on Rand Water	(2,030)	2,030
	272,956	317,228

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28. 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, 58 of 1962, published in the Government Gazette.

29. Cash generated from operations

Surplus	1,753,725	1,368,082
Adjustments for:		
Depreciation, amortisation and impairment	309,302	289,562
Inventory adjustment/obsolescence	61,366	523
Accrued Interest income	(4,060)	(4,195)
Post Retirement benefit plan cost	(4,959)	(7,397)
Accrued Finance costs	3,741	8,297
Developer funded asset income	(165,699)	(242,231)
Allowance for impairment	2,043,242	1,838,974
Loss on disposal of property, plant and equipment	373	263
Changes in working capital:		
Inventories	(20,135)	626
Retirement benefit obligation	(7,175)	(7,951)
Provisions	10,539	(2,370)
Other receivables	(27,187)	2,458
Consumer debtors: Exchange transactions	(2,590,580)	(2,244,868)
Trade receivables with group companies	(187)	(424)
Trade and other payables from exchange transactions	(115,104)	233,638
Trade payables with group companies	(7,325)	14,909
Loans to shareholder	(357,452)	(203,966)
Loans from shareholder	96,463	7,087
	978,888	1,051,017

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30. Commitments

Authorised capital expenditure

Already contracted for but not provided for

Property, plant and equipment	729,589	208,451
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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 expenditure will be financed from:

Loans	287,551	98,893
Grants and subsidies	109,618	63,652
Own funding	332,420	45,906
	729,589	208,451

Operating leases - as lessee

Minimum lease payments due

• within one year	44,213	45,021
• in second to fifth year inclusive	-	44,213
	44,213	89,234

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

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31. Related parties

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

Relationships
Parent

City of Johannesburg Metropolitan Municipality

Other members of the group

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

Members of key management

Directors' emoluments and other Key Management Personnel Remuneration - Note 32

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

Amounts owing by related parties

City of Johannesburg Metropolitan Municipality	1,154,747	677,270
City Power SOC Ltd	116	-
Johannesburg Development Agency (SOC) Ltd	407	407
Johannesburg Roads Agency (SOC) Ltd	100	29
	1,155,370	677,706

Amounts owing to related parties

City of Johannesburg Metropolitan Municipality- Non current liabilities	2,319,414	2,315,698
City of Johannesburg Metropolitan Municipality - Current liabilities	2,016,576	1,908,002
City of Johannesburg Metropolitan Municipality - Leases : Current and non-current liabilities	14,398	12,426
City Power Johannesburg (SOC) Ltd	41,083	41,083
Johannesburg Roads Agency (SOC) Ltd	13,992	21,044
City of Johannesburg Property Company (SOC) Ltd	298	1,684
The Johannesburg Civic Theatre (Pty) Ltd	56	-
Johannesburg City Parks and Zoo (NPC)	1,328	269
Johannesburg Metropolitan Bus Services (SOC) Ltd t/a Metrobus	-	3
	4,407,145	4,300,209

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31. Related parties (continued)

Related party

Sales to related parties

City of Johannesburg Metropolitan Municipality	467,100	374,615
Johannesburg City Parks and Zoo (NPC)	26,849	21,587
Johannesburg Social Housing Company (SOC) Ltd	27,183	19,072
Johannesburg Metropolitan Bus Services (SOC) Ltd	10,373	9,760
Pikitup Johannesburg (SOC) Ltd	12,283	6,961
Johannesburg Roads Agency (SOC) Ltd	7,868	6,900
City Power Johannesburg (SOC) Ltd	5,444	5,556
The Johannesburg Fresh Produce Market (SOC) Ltd	2,484	1,701
Johannesburg Civic Theatre (SOC) Ltd	1,679	1,089
Johannesburg Development Agency (SOC) Ltd	-	357
	561,263	447,598

Purchases from related parties

City of Johannesburg Metropolitan Municipality	(253,801)	(236,580)
City Power Johannesburg (SOC) Ltd	(116,837)	(150,127)
Johannesburg Roads Agency (SOC) Ltd	(29,326)	(30,820)
City of Johannesburg Property Company (SOC) Ltd	(145)	(1,439)
Johannesburg City Parks and Zoo (NPC)	(2,019)	(1,347)
Pikitup Johannesburg (SOC) Ltd	(2,492)	(1,237)
Johannesburg Civic Theatre (Pty) Ltd	(154)	(35)
Johannesburg Metropolitan Bus Services (SOC) Ltd	-	(5)
	(404,774)	(421,590)

Interest on shareholder loans, finance leases, notional and sweeping accounts

Interest income on sweeping and notional accounts	31,927	30,205
Interest expense on shareholder loans, sweeping and lease liability	(270,412)	(303,838)
	(238,485)	(273,633)

All transactions with group companies are conducted at arm's length.

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32. 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

2019	Basic salary	Acting allowance	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
NJ Mukwevho- Managing Director	2,242	-	158	176	378	2,954
J Koekemoer- Financial Director(i)	967	-	-	185	153	1,305
J Koekemoer - Acting Financial Director(ii)	-	63	-	-	-	63
	3,209	63	158	361	531	4,322

i J Koekemoer appointed as Financial Director on 1 December 2018.

ii J Koekemoer acted as Financial Director for period 1 July 2018 to 30 November 2018,

2018	Basic salary	Acting allowance	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
NJ Mukwevho- Managing Director(i)	1,817	-	-	147	290	2,254
NJ Mukwevho- Acting Managing Director(ii)	-	28	-	-	-	28
CB Shongwe - Financial Director(iii)	977	-	86	60	116	1,239
J Koekemoer - Acting Financial Director(iv)	-	73	-	-	-	73
	2,794	101	86	207	406	3,594

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

- i NJ Mukwevho appointed as Managing Director on 1 September 2017.
- ii NJ Mukwevho acted as Managing Director for the period 1 July 2017 to 31 August 2017.
- iii CB Shongwe resigned on 31 December 2017.
- iv J Koekemoer acted as Financial Director for the period 1 January 2018 to 30 June 2018

Non executive directors

Services rendered as director of company

B Furstenburg	166	169
SN Khondlo	-	78
JJH Mateya	100	274
MP Matji	5	120
K Mdutshane	106	394
G Mloi	-	91
KPM Simelane	166	354
R Mudliar	24	194
S Tshivhunge	91	193
B Twala	89	-
D Sebotsa	24	-
M Van Dijk	24	-
J Maduna	24	-
	819	1,867

Services rendered by independant audit committee members

R Buys	10	47
Z Samsam	42	51
V Mokwena	37	95
	89	193

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

Senior Management

2019	Basic salary	Acting Allowance	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
S Mathebula	1,066	-	32	168	239	1,505
GJ Luden(i)	612	-	29	3	110	754
D Kgwale(ii)	826	-	-	96	124	1,046
S Sibiyi(iii)	-	56	-	-	-	56
R Malatji(iv)	-	106	-	-	-	106
B Xaba(v)	-	72	-	-	-	72
I Dhludhlu(vi)	-	33	-	-	-	33
E Hugo(vii)	-	44	-	-	-	44
J Mnisi (viii)	-	117	-	-	-	117
N Loteni(ix)	-	5	-	-	-	5
T Matsoso(x)	-	8	-	-	-	8
	2,504	441	61	267	473	3,746

i G Luden retired on the 31 October 2018

ii D Kgwale was appointed as Chief Operations Officer on 1 November 2018.

iii S Sibiyi acted as Company Secretary for the period 1 November 2018 to 30 June 2019.

iv R Malatji acted as Executive Manager: Human Resources and Corporate Services for period 1 July 2018 to 24 December 2018 and from 14 January 2019 to 30 June 2019.

v B Xaba acted as Executive Manager: Communications and Stakeholder Relations for the period 1 November 2018 to 30 June 2019.

vi I Dhludhlu acted as Executive Manager: Communications and Stakeholder Relations for the period 1 July 2018 to 31 October 2018.

vii E Hugo acted as Chief Operations Officer for the period 1 July 2018 to 31 October 2018.

viii J Mnisi acted as Executive Manager: Risk and Compliance for the period 1 July 2018 to 20 January 2019 and from 19 February to 30 June 2019.

ix N Loteni acted as Executive Manager: Human Resources and Corporate Services for the period 27 December 2018 to 11 January 2019.

x T Matsoso acted as Executive Manager: Risk and Compliance for the period 21 January 2019 to 18 February 2019.

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

2018	Basic salary	Acting allowance	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
GJ Luden	1,294	-	-	10	310	1,614
NJ Mukwevho(i)	313	-	120	29	40	502
H Matthews(ii)	86	-	98	8	12	204
B Ikangeng(iii)	215	-	-	-	26	241
S Mathebula(iv)	77	-	-	14	19	110
L Van Tonder(v)	-	85	-	-	-	85
B Xaba(vi)	-	74	-	-	-	74
I Dhludhlu(vii)	-	16	-	-	-	16
E Hugo(viii)	-	93	-	-	-	93
K Hussey(ix)	-	6	-	-	-	6
N Loteni(x)	-	25	-	-	-	25
K Matlakala(xi)	-	5	-	-	-	5
J Mnisi(xii)	-	87	-	-	-	87
T Matsoso(xiii)	-	7	-	-	-	7
F Nyembe(xiv)	-	73	-	-	-	73
	1,985	471	218	61	407	3,142

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

- i NJ Mukwevho was the Chief Operations Officer and was appointed on 1 September 2017 as Managing Director.
- ii H Matthews resigned on 31 July 2017.
- iii B Ikangeng was appointed on the 1 May 2018 and resigned on 30 June 2018.
- iv S Mathebula was appointed on 1 June 2018.
- v L Van Tonder acted as Executive Manager: Human Resources and Corporate Services for the period 1 July 2017 to 9 March 2018.
- vi B Xaba acted as Executive Manager: Communications and Stakeholder Relations for the period 1 August 2017 to 30 April 2018.
- vii I Dhudhlu acted as Executive Manager: Communications and Stakeholder Relations for the period 1 May 2018 to 30 June 2018.
- viii E Hugo acted as Chief Operating Officer for the period 1 September 2017 to 30 June 2018.
- ix K Hussey acted as Executive Manager: Human Resources and Corporate Services for the period 1 April 2018 to 30 June 2018.
- x N Loteni acted as Executive Manager: Human Resources and Corporate Services for the period 12 March 2018 to 31 March 2018.
- xi K Matlakala acted as Chief Internal Auditor for the period 1 July 2017 to 31 July 2017.
- xii J Mnisi acted as Executive Manager: Risk and Compliance for the period 1 July 2017 to 16 January 2018 and 17 February 2018 to 30 April 2018.
- xiii T Matsoso acted as Executive Manager: Risk and Compliance for the period 17 January 2018 to 16 February 2018.
- xiv F Nyembe acted as Chief Internal Auditor for the period 1 August 2017 to 30 May 2017.

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33. Comparatives Restated

Note 27, Interest expense has been reclassified for the prior year from Interest on sweeping overdraft to Interest on post retirement benefits of R6.7 million.

In addition, the following disclosure notes also required restatement of comparatives due to group directives:

Note 3 - Expenditure incurred to repair and maintain property, plant and equipment ,

Note 24 - Operating expenses

Note 29 - Cash generated from operations

The Cash Flow Statement has been updated with reclassifications to improve the disclosure of certain elements therein. This improvement in the current year has necessitated the comparatives being restated as follows:

Increase in cash receipts from government grants	R223 095
Decrease in cash paid to suppliers and employees	R223 095

This improvement was necessary to disaggregate the inflow from the outflow

Increase in proceeds from post retirement notional account	R5 779
Decrease in net cash flow from operating activities	R5 779

This improvement was necessary to reclassify the amount from cash generated from operations to cash flows from financing activities as these inflows are funded through an investment that the City of Johannesburg holds on behalf of the entity.

The Cash Flow Statement has also been updated as a result of the prior period error in classification of consumer deposits and consequent amendment recommended by the Auditor General as highlighted in note 34.2. It has the following impact on the cash flow comparative that has been restated:

Increase in cash receipts from consumer deposits	R22 340
Decrease in net cash flow from operating activities	R22 340

The comparative figures have been restated as a result of prior year adjustments as per note 34.

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34. Prior year adjustments (errors)

34.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has recalculated the accrual value in relation to the 2017 and 2018 financial years. These transactions result in an adjustment to revenue for the 2017 and 2018 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2018	2017
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions (Trade receivables)	11,643	8,183
Impact on Statement of Financial Performance		
Increase in Revenue from exchange transactions	11,643	8,183
Impact on Statement of Changes in Net Assets		
Increase in Net surplus for the year	11,643	8,183

34.2 Prior year Customer Deposit Adjustment and reclassification

In the 2017/2018 financial year, the City of Johannesburg Metropolitan Municipality embarked on an exercise to achieve completeness of the deposit register in prior years. In doing so, deposits were raised against existing customer accounts, where it was found that deposits were not raised on initial opening of the account.

This exercise serviced the audit requirements of achieving completeness of the deposit register. Upon subsequent investigation, it was found that these deposits were not paid, and therefore not cash backed. In order to comply with the appropriate standards of GRAP, the liability was reversed in 2017/2018 and accounted for accordingly as a prior period error across all entities as a directive from the City of Johannesburg.

However in the 2018/2019 financial year, further investigations were done by the City of Johannesburg, and it was found that the previous directive issued across the group was incorrect. It was established that the deposits raised does not form part of the debtors balance listing because SAP creates an entry that is not posted to the ledger to raise customer deposits. Therefore the adjustment was reversed to correct last financial years credit balance including prior year adjustments.

In addition, the Auditor General recommended a reclassification of consumer deposits from current liabilities to non current liabilities and management has agreed to effect the change accordingly.

	2018	2017
Impact on Statement of Financial Position		
Increase in consumer deposits	5,181	20,976
Decrease in Loans to Shareholder	(5,181)	(20,976)
Decrease in Trade and other payables: Exchange transactions	(318,972)	(296,632)
Increase in Consumer deposits	318,972	296,632

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:

	2018	2017
Impact on Statement of Changes in Net Assets		
Increase in Net surplus for the year	11,643	8,183

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35. Risk management

Financial risk management

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

Liquidity risk

The company's risk to liquidity is a result of the funds necessary to cover future commitments. The company manages liquidity risk through an on-going review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilisation of borrowings facilities are monitored. The entity's funding is managed by the City of Johannesburg Metropolitan Municipality. The City of Johannesburg is responsible for borrowing of money in the open market through issuance of bonds as and when required. Due to the dynamic nature of the underlying businesses, the entity's treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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 2019	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	2,018,344	671,085	1,622,089	724,837
Finance lease obligation: Shareholder	5,794	4,470	2,617	-
Trade payables with group companies	56,757	-	-	-
Trade and other payables from exchange transactions	954,524	-	-	-
At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loans from shareholder	1,908,837	666,958	1,595,307	727,977
Finance lease obligation: Shareholder	4,579	4,503	3,344	-
Finance lease obligation: Other	112	-	-	-
Trade payables with group companies	64,083	-	-	-
Trade and other payables from exchange transactions	930,264	-	-	-

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 the bank sweeping account with the shareholder. Other than this item, the company's income and operating cash flows are substantially independent of changes in market interest rates. The table below illustrates the likely cash flow risk to the company in the event the interest rate fluctuates. An increase / (decrease) in the interest rate at the reporting date would have increased / (decreased) the surplus by the amounts shown below.

Sensitivity analysis for interest rate risk

Financial instrument	Current interest rate		
Bank sweeping (+1%)	6.72%	4,802	3,738
Bank sweeping (-1%)		(3,555)	(3,776)

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35. Risk management (continued)

Credit risk

Credit Risk is the risk of financial loss to the entity if a customer fails to meet its contractual obligations. This arises ostensibly from the entity's Consumer Debtors: Exchange Transactions and Other Receivables. Management evaluates credit risk relating to these customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Customers are grouped according to their credit characteristics, including but not limited to whether they are domestic, commercial or government accounts, geographic locations, ageing profile and payment history. Sales to customers are ordinarily settled in cash or using major credit cards. Further collateral security is obtained from customers either in the form of cash or demand guarantees. In addition the entity also has minor exposure to credit risk with trade receivables from group companies and loans to shareholder. These are regarded as minor as they are controlled through a group intercompany process which attempts to ensure timeous settlement of these debts to avoid payment defaults and debt impairment on these items. The maximum exposure to credit risk is limited to the values disclosed in note 6, 7, 10 and 11.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market price. Those changes are caused by factors specific to the individual financial instrument for its users, by factors affecting all similar instruments in the market. The entity's financial instruments are impacted by the wholesale price of water from Rand Water.

36. Deviations from formal procurement processes

Category	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Regulation 32	17,445	-	17,445
Emergencies	23,557	16,320	39,877
Sole Suppliers	86,290	4,861	91,151
Impracticality	208,557	19,639	228,196
	335,849	40,820	376,669

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:

- Regulation 32 - allows for the procurement of goods and services under a contract secured by another organ of state.
- Emergencies - where immediate action is necessary to avoid a dangerous or risky situation or misery or disaster
- Sole suppliers - where such goods or services are produced or available from a single provider only
- Any other exceptional cases where it is impractical or impossible to follow the official procurement processes

It is further noted that the deviations referred to above have been ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers which are purely of a technical nature. All these deviations have also in terms of the regulations been reported to the board of directors as required.

Total deviations of R376.7 million (2018: R286.3 million) for the period under review predominantly indicates instances of deviations relating to impracticality. The awards made in relation to impracticality are mainly the security, mechanical plant and water tanker contracts.

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37. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening Balance	6,337	3,275
Fruitless and wasteful expenditure in current year	330	3,062
Transaction reversed	(2,030)	-
	4,637	6,337

Details of fruitless and wasteful expenditure for the year

	Item	Details of expenditure	Amount
1	Interest Paid to Raubex/ L & R Civil	Interest paid to a contractor because of an arbitration award stemming from a dispute with a contractor. The arbiter ruled in favour of the contractor.	302
2	Interest paid to Murray and Roberts	Interest paid to a contractor because of delay in release of retention funds. The GCC 2004 contract makes provision for same day payment in terms of retention money, however it is impractical in terms of Johannesburg Water payment policy and on recommendation from Legal Department and to avoid further interest it was agreed to pay the interest the contractor was entitled to.	28
			330

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

	Item Description	Status	Disciplinary steps/ criminal proceedings	Amount
1	Expenditure incurred on contract JW 12007 for standing time on superbloc 13b covering the Braaamfisherville and Tshepisong where the entity delayed in executing shut downs of water supply to enable the contractor to complete tie-ins on the network.	The investigations has been concluded and no official was found to have benefitted financially, and recovery not possible.	One employee was charged with misrepresentation of facts and was dismissed.	2,929
2	Interest paid to eJoburg Pension Fund as a result of late payments that were made by the entity.	The investigation has been concluded. No person found to have benefitted and recovery not possible.	Notification of no intention to proceed with disciplinary action issued.	12
3.	Compost screen acquired for the treatment works in 2009/2010 which were not taken into use until recently	The case has been referred to GFIS and feedback is still outstanding. Subsequent to 30 June 2019, all outstanding GFIS investigations will be conducted by Internal Audit.	No further action foreseen as both employees implicated have since passed away.	1,366
4	Interest accrued on Rand Water 2017/2018	Rand Water has issued a credit note of R2,030 for the interest charged.	Not Applicable	-
5	Interest Paid to Raubex/ L & R Civil	Interest paid to a contractor because of an arbitration award stemming from a dispute with a contractor. The arbiter ruled in favour of the contractor.	Investigation to commence.	302

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37. Fruitless and wasteful expenditure (continued)

6	Interest paid to Murray and Roberts	Interest paid to a contractor because of delay in release of retention funds. The GCC 2004 contract do make provision for same day payment in terms of retention money, however it is impractical in terms of Johannesburg Water payment policy and on recommendation from Legal Department and to avoid further interest it was agreed to pay the interest the contractor was entitled to.	Investigation to commence.	28
				<u>4,637</u>

38. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

Opening balance	418,028	128,641
Irregular expenditure identified and incurred in current year	195,659	177,282
Irregular expenditure identified in prior years, incurred in current year	178,310	112,105
	<u>791,997</u>	<u>418,028</u>

Details of irregular expenditure identified in prior years, incurred in current year

	Item	Details of irregular expenditure	Amount
1	Provision of human resource based security services	Provision of human resource based security services to guard the entity's infrastructure. Part of the evaluation criteria of the bid evaluation process involved a site visit to qualifying bidders. This specific part of the evaluation was not executed in a manner, which is considered fair. The contract expired at the end of October 2018.	15,446
2	Vuk'uphile Learner Contractor Development Programme	Vuk'uphile programme was developed to build the capacity amongst emerging contractors to execute increasing amount of labour-intensive work. Learner contractors in the programme received training required as part of the EPWP Guidelines so that when they exit the programme they are fully qualified to tender for and execute labour intensive projects. An independent investigation, performed by an external forensic investigating firm was conducted in 3 phases. The last phase concluded during the 2018-19 financial year and found that the programme did not follow the correct recruitment processes for the 65 learner contractors, and a lack of documentary evidence to substantiate the appointment of these learner contractors. The investigation further revealed evidence of bribery, corruption and extortion committed by 2 Johannesburg Water officials. These officials have since resigned from the entity. A criminal case has been instituted against these officials. (SAPS Case number 442/02/2018). The case has been escalated to the NPA who will make a decision on whether to prosecute or not. Investigations with regards to the remaining internal employees alleged to have failed to follow company guidelines for the programme were finalised and one disciplinary case is currently in progress.	55,125
3	Basic Sanitation Services	The entity did not correctly apply Regulation 9 of the PPPFA, which stipulates that in contracts with a value of R30 million and more, a minimum of 30% must be stipulated during the tender phase for subcontracting. The value of this contract is more than R30 million but the entity specified a lesser percentage available for subcontracting. The reasons for this decision have been discussed with AGSA, however the opinion of AGSA is that the regulation has been applied incorrectly and thus leads to irregular expenditure. This was a two-year contract.	18,230

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38. Irregular expenditure (continued)

4	Construction of balancing tank in Bushkoppies WWTW	The entity did not meet the CIDB conditions relating to an award to a contractor with a 6CEPE grading.	45,136
5	Fleet services	Implementation of the centralised City-wide fleet contract without a valid contract. A valid contract has been put in place as from 1 February 2019.	44,373
			178,310

Details of irregular expenditure identified and incurred in current year

	Item	Details of irregular expenditure	Amount
1	RFQ – Support and Maintenance services	Support and maintenance services for laboratory machinery without a valid contract over a number of years. The procurement process has subsequently commenced to put a valid contract in place.	2,606
2	Design, develop and implement a business unit dashboard	The procurement processes were not followed as the winning bidders were allocated points for the criteria that they did not achieve. If the points were not awarded, the bidders would not have achieved the minimum score on functionality to proceed for further evaluation	519
3	Lenasia pump station upgrade	The qualifications for the contracts manager and site agent were not the required ones as stated. Therefore, the service provider should have not been awarded points for contracts manager and site agent. The service provider would have not met the minimum qualifying score of 70 that was required to pass functionality and therefore they would have not been evaluated for price. The service provider should have not appointed.	10,759
4	Book scanners supply and installation	The procurement processes were not followed as the winning bidders were allocated points for the criteria that they did not achieve. If the points were not awarded, the bidders would not have achieved the minimum score on functionality to proceed for further evaluation.	8,357
5	Catering for training	The procurement processes were not followed as the winning bidder was allocated points for the criteria that they did not achieve. If the points were not awarded, the bidder would not have achieved the minimum score on functionality to proceed for further evaluation. Further to this, the procurement processes were not followed as winning bidders had an amount for the municipal rates, taxes and service charges that was outstanding for more than three months. If this was considered that the bidder should have been rejected.	11
6	Biometric system support	Johannesburg Water had a number of deviations with the service provider where the service provider had a non-tax compliant status and outstanding documentation, however they were still appointed	332
7	Vacuum tanker service	The supplier was appointed by way of numerous deviations. The motivation for deviation was that it was an exceptional case where it is impractical or impossible to follow the official procurement process. It was indicated that the new contract will not be in place due to the fact that it was still with the internal auditors for probity check. The deviation is as a result of poor planning due to lack of contract management processes in place at Johannesburg Water SOC Limited. The contract came to an end in August 2016 and the entity did not plan in advance to initiate a new tender process with adequate specifications. Furthermore, the reason to not award tender no JW OPS 03/16 because the validity period expired is unjustifiable.	6,950
8	Vacuum tanker service	The supplier was appointed by way of numerous deviations. The motivation for deviation was that it was an exceptional case where it is impractical or impossible to follow the official procurement process. It was indicated that the new contract will not be in place due to the fact that it was still with the internal auditors for probity check. The deviation is as a result of poor planning due to lack of contract management processes in place at Johannesburg Water SOC Limited. The contract came to an end in August 2016 and the entity did not plan in advance to initiate a new tender process with adequate specifications. Furthermore, the reason to not award tender no JW OPS 03/16 because the validity period expired is unjustifiable.	38,428

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38. Irregular expenditure (continued)

9	Procurement of plastic pipe fittings	The winning quote did not score the highest total number of points as required by the Preferential Procurement Regulations.	69
10	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	1,636
11	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	796
12	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	199
13	Supply of internet services	<p>The motivation for deviation was that the procurement process was considered to be an exceptional case where it is impractical or impossible to follow the official procurement process. The following reasons for the motivation were provided by JW:</p> <ul style="list-style-type: none"> •Increase in the number of water prepaid vending units being deployed within the city •Over the last 3 to 5 years, the number of applications that need to be accessed via the internet has increased. •There is a plan to start moving business applications into cloud •The increase in bandwidth will increase the performance for users accessing JW application and systems of over the GSM network. •Natural Growth in demand •New email services will elevate email security to include scanning of internet links, macros in attachment and impersonation. •Email continuity is a service that allow JW employees to have full access to their email in the event the mail server is unavailable for a long period due to planned or unplanned outages. <p>Although this is the current service provider that provides internet services to JW, they are not the only service provider that can provide internet services. The justification for the deviation the current service provider limits competition and does not allow other service providers an opportunity to render services to JW. This is also indicative of the service provider receiving preferential treatment by JW.</p>	3,226
14	Hire of mechanical plant	The reasons provided in the motivation for the deviations to procure the hire of mechanical plant were informed by inefficiencies and lack of capacity within the Entity and not due to it being impractical or impossible to follow an open tender process. Based on the reasons provided for the deviations, it was not justified and do not comply with paragraph 36(1) (iv) of the Municipal Supply Chain regulations.	33,759
15	Hire of mechanical plant	The reasons provided in the motivation for the deviations to procure the hire of mechanical plant were informed by inefficiencies and lack of capacity within the Entity and not due to it being impractical or impossible to follow an open tender process. Based on the on the reasons provided for the deviations, it was not justified and do not comply with paragraph 36(1) (iv) of the Municipal Supply Chain regulations.	29,066
16	Hire of mechanical plant	Johannesburg Water had a number of deviations with the service provider where the service provider had a non-tax compliant status as well as COIDA non-compliant, however they were still appointed	10,125
17	Hire of mechanical plant	The supplier was one of the bidders that were evaluated on functionality and disqualified in a tender, however continued to appointed through a deviation process	8,461
18	Transport of potable water	The supplier was appointed through a deviation process for the transportation and delivery of potable water for a period of thirty-one (31) months from 1 September 2016 to 31 March 2019. The motivation for deviation was that the procurement process was considered to be an exceptional case where it is impractical or impossible to follow the official procurement process. Lack of poor planning is not a justifiable reason for a deviation process to be embarked on.	10,353

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38. Irregular expenditure (continued)

19	Procurement of Cyber Software	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	548
20	Procurement of Bio Remediation Services	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	279
21	Procurement of water meters	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	1,060
22	Procurement of PVC pipes	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	1,591
23	Procurement of stock items	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	4,941
24	Installation and commissioning of VSD panels	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	2,608
25	Zandspruit pumpstation emergency repairs	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	6,910
26	Vacuum tanker service	The service provider had a non-tax compliant status, however they were still appointed	199
27	Fleet Services	The COJ procured fleet services using regulation 32 of the Municipal Supply Chain regulations. It was found during the audit that the terms and conditions of the contract that the COJ entered into with the supplier differed materially from the original contract entered into by the other organ of state.	11,871
			<u>195,659</u>

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38. Irregular expenditure (continued)

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

	Item Description	Status	Disciplinary steps/ criminal proceedings	Amount
1	Awards made accepting BBBEE certificates and tax clearance certificates that were neither original nor certified copies	Approved by the Board of Directors for condonation and write off as irrecoverable. There was no evidence that any official benefitted personally and there was no loss to the entity.	Disciplinary action completed, written warnings issued to 3 implicated employees.	25,616
2	Farm Operator Contract	Investigation concluded and there was no evidence that any official benefitted personally.	Implicated official has since resigned from the entity and no further action taken.	12,207
3	Supply and Installation of water saving cisterns	Investigation concluded and there was no evidence that any official benefitted personally.	Disciplinary action was taken and 3 officials were subsequently charged. Disciplinary process currently in progress.	16,486
4	Provision of human resource based security contract	Forensic investigation concluded and there was no evidence that any official benefitted personally.	No actions were taken against the six employees as there were no findings of wrongdoings against them.	129,769
5	Power cable at Northern Works	Required supply chain process not followed to replace the stolen power cable at Northern Works. Investigation concluded and no evidence that any official benefitted personally.	One employee resigned pending an investigation and another employee was taken through the disciplinary enquiry.	238
6	Rehabilitation and commissioning of Protea Glen Reservoir	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	8,241
7	Stock Items	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	468
8	Stock items	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	6,938
9	Legal Subscription	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	110

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38. Irregular expenditure (continued)

10	Vuk'uphile Learner Contractor Development Programme	Investigations completed and criminal case lodged with SAPS.. Regular follow up with SAPS is being made. The 2 implicated officials have since resigned from the entity. Investigations with regards to the remaining internal employees alleged to have failed to follow company guidelines for the programme were finalised and one disciplinary case is currently in progress.	SAPS Case no 442/02/2018 and one internal disciplinary action currently in progress.	88,686
11	Environmental consultancy services	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	8,969
12	Basic sanitation services	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	26,560
13	Construction of balancing tank in Bushkoppies WWTW	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	99,671
14	Fleet services	The case was referred to GFIS and the entity is currently awaiting feedback. *	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	172,379
15	RFQ – Support and Maintenance services	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	2,606
16	Design, develop and implement a business unit dashboard	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	519
17	Lenasia pump station upgrade	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,759
18	Book scanners supply and installation	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	8,357
19	Catering for training	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	11
20	Biometric system support	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	332
21	Vacuum tanker service	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	6,950

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38. Irregular expenditure (continued)

22	Vacuum tanker service	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	38,428
23	Procurement of plastic pipe fittings	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	69
24	Procurement of stock items	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,636
25	Procurement of stock items	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	796
26	Procurement of stock items	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	199
27	Supply of internet services	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	3,226
28	Hire of mechanical plant	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	33,759
29	Hire of mechanical plant	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	29,066
30	Hire of mechanical plant	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,125
31	Hire of mechanical plant	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	8,461
32	Transport of potable water	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,353
33	Procurement of Cyber Software	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	548
34	Procurement of Bio Remediation Services	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	279
35	Procurement of water meters	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,060

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38. Irregular expenditure (continued)

36	Procurement of PVC pipes	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,591
37	Procurement of stock items	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	4,941
38	Installation and commissioning of VSD panels	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	2,608
39	Zandspruit pumpstation emergency repairs	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	6,910
40	Vacuum tanker service	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	199
41	Fleet Services	New case - investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	11,871
				<u>791,997</u>

* Subsequent to 30 June 2019, all outstanding GFIS investigations will be conducted by Internal Audit.

39. Actual capital expenditure versus budgeted capital expenditure

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

Capital budget for the year	928,640	715,005
Actual spend for the year	(926,138)	(602,954)
	<u>2,502</u>	<u>112,051</u>

Actual spend as a percentage of budget	99.7 %	84.3 %
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Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	499,440	3,000	502,440	502,440	-
Own Funding	197,496	25,000	222,496	219,994	2,502
Grants and subsidies	203,704	-	203,704	203,704	-
	<u>900,640</u>	<u>28,000</u>	<u>928,640</u>	<u>926,138</u>	<u>2,502</u>

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40. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	5	-
Current year fee	5,216	6,039
Amount paid - current year	(5,202)	(6,034)
Amount paid - previous years	(5)	-
	14	5

PAYE and UIF

Opening balance	13,178	12,133
Current year contributions	190,980	168,028
Amount paid - current year	(175,210)	(154,850)
Amount paid - previous years	(13,178)	(12,133)
	15,770	13,178

Pension and Medical Aid Deductions

Current year contributions	274,145	252,289
Amount paid - current year	(274,145)	(252,289)
	-	-

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41. Change in accounting estimates

Useful life of Property, plant and equipment

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

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

Communication range has changed from 2 to 9 years to a new range of 2 to 13 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R33 thousand and an increase in future years depreciation by R33 thousand.

Computer Equipment range has changed from 4 to 22 years to a new range of 4 to 24 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R2 681 million and an increase in future years depreciation by R2 681 million.

Furniture and Fittings range has changed from 5 to 21 years to a new range of 5 to 22 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R128 thousand and an increase in future years depreciation by R128 thousand.

Laboratory Equipment range has changed from 2 to 10 years to a new range of 2 to 15 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R536 thousand and an increase in future years depreciation by R536 thousand.

Minor plant range has changed from 5 to 13 years to a new range of 5 to 16 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R90 thousand and an increase in future years depreciation by R90 thousand.

Office Equipment range remains 5 to 18 years as described in the policy; however, the sub classes within the office equipment have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R64 thousand and an increase in future years depreciation by R64 thousand.

Fixed Property – Security range remains 5 to 30 years as described in the policy; however, the sub classes within the Fixed Property have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R3 thousand and an increase in future years depreciation by R3 thousand.