Odi Water Services

ODI

Together we can keep water flowing

SANDSPRUIT WORKS ASSOCIATION SOC LIMITED

(Registration number 1999/019160/08)

TRADING AS ODI WATER SERVICES

Audited Annual Financial statements
for the year ended 30 June 2013

General Information

Nature of business and principal activities	Water and Sanitation Services
Chief Executive Officer (CEO)	MJ Taetsane
Chief Financial Officer (CFO)	P Avenant
Board of Directors	Adv K-D Garlipp (Non-Executive) CV Maboka (Non-Executive) KA Eales (Non-Exectuive) LN Bokaba (non-Executive) T Moromane (Non-Exectuve) MJ Taetsane (Executive Director) ME Makgato (Non Executive): Resigned 30 June 2012 KH Sekhokho (Non-Executive): Resigned 30 June 2012 M Dooms (Non-Executive): Resigned 30 June 2012
Registered office	Molefe Makinta Highway Opposite Morula Sun Next to NTI Mabopane 0208
Business address	Molefe Makinta Highway Opposite Morula Sun Next to NTI Mabopane 0208
Postal address	Private Bag X1124 Ga-Rankuwa 0221
Controlling entity	City of Tshwane Metropolitan Municipality (CTMM)
Bankers	Standard Bank of South Africa and ABSA Bank of South Africa
Auditors	Auditor-General South Africa (AGSA)
Company Secretary	Samantha Gramoney
Preparer	The annual financial statements were compiled internally by: IS Mogototoane CA(SA)
Company registration number	1999/019160/08

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

Abbreviations

GRAP	Generally Recognised Accounting Practice
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act (Act 56 of 2003)
SARS	South African Revenue Services
VAT	Value Added Tax
SOC	State Owned Company
CTMM	City of Tshwane Metropolitan Municipality

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the director to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is 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 deficit.

The accounting officer has reviewed the entity's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is wholly dependent on the City of Tshwane Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the City of Tshwane Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The annual financial statements set out on page 61 to 103, which have been prepared on the going concern basis, were approved by the Board of Directors on 29 August 2013 and were signed on its behalf by

MJ Taetsane
Chief Executive Officer

Report of the directors

The director submits his report for the year ended 30 June 2013.

1. Incorporation

The entity was incorporated on 09 January 1999 and obtained its certificate to commence business on the same day.

2. Review of activities

Main business and operations

The entity is engaged to develop, prepare, install and maintain water and sanitation services on behalf of the City of Tshwane Metropolitan Municipality, the parent municipality to the residents and businesses in the areas of Garankuwa, Mabopane and Winterveltand.

During the year under review there were no changes in the activities of the the business.

Net deficit of the entity was R 2 874 477 (2012: deficit R 16 609 598).

3. Going concern and undertaking of support

We draw attention to the fact that at 30 June 2013, the entity had accumulated deficits of R (2 487 280) and that the entity's total liabilities exceed its assets by R (2 487 280).

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 ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the subordination letter of support referred to in note 31 of these annual financial statement will remain in force.

4. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year.

5. Directors' personal financial interest

The directors have declared that they have no interest in the contracts of the company.

6. Accounting policies

The annual financial statements have been prepared in accordance with the Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and additional disclosure requirements in terms of Municipal Finance Management Act (Act 56 of 2003).

7. Corporate governance

General

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

Report of the directors

Board of directors

The Board:

- retains full control over the entity, its plans and strategy;
- 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 entity;
- is of a unitary structure comprising:
  - non-executive directors, all of whom are independent directors as defined in the Code; and
  - chief executive officer.

Chair person and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The remuneration of the Chief Executive Officer, who is the only executive director of the entity, is determined by the parent municipality.

The remuneration of the directors is also determined by the parent municipality.

8. Auditors

Auditor-General South Africa (AGSA) will continue in office for the next financial period.

Company Secretary’s Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the Municipal Enity has lodged with the Commissioner all such returns as are required of a state owned company in terms of the Companies Act and that all such returns are true, correct and up to date.

Samantha Gramoney
Company Secretary
29 August 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	5	2 770 808	2 516 772
Receivables from exchange transactions	6	15 289 191	12 200 498
Receivables from non-exchange transactions	7	66 159 459	52 737 253
VAT receivable	8	2 965 613	2 974 060
Cash and cash equivalents	9	12 123 433	21 321 342
		99 308 504	**91 749 925**
Non-Current Assets			
Property, plant and equipment	3	9 453 393	11 440 495
Total Assets		**108 761 897**	**103 190 420**
Liabilities			
Current Liabilities			
Operating lease liability	4	85 155	246 827
Trade Payables and Other Payables	11	109 936 230	100 570 781
Unspent conditional grants and receipts	10	1 164 242	1 853 016
		111 185 627	**102 670 624**
Non-Current Liabilities			
Operating lease liability	4	63 550	132 599
Total Liabilities		**111 249 177**	**102 803 223**
Net Assets/ (Liabilities)		**(2 487 280)**	**387 197**
Accumulated surplus/(deficit)		(2 487 280)	387 197

Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
Revenue	13	316 107 559	273 056 554
Cost of sales	16	(132 962 550)	(108 457 226)
Gross surplus		**183 145 009**	**164 599 328**
Other income		4 026 129	1 757 672
Operating expenses		(214 159 971)	(204 790 553)
Operating deficit	18	**(26 988 833)**	**(38 433 553)**
Interest Earned	21	24 114 356	21 826 154
Finance costs		-	(2 199)
Deficit for the year		**(2 874 477)**	**(16 609 598)**
Attributable to:			
Owners of the controlling entity		(2 874 477)	(16 609 598)

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus/(deficit)	Total net assets
Balance at 01 July 2011	**16 996 795**	**16 996 795**
Changes in net assets		
Surplus/(Deficit) for the year	(16 609 598)	(16 609 598)
Total changes	(16 609 598)	(16 609 598)
Balance at 01 July 2012	**387 197**	**387 197**
Changes in net assets		
Surplus/(deficit) for the year	(2 874 477)	(2 874 477)
Total changes	(2 874 477)	(2 874 477)
Balance at 30 June 2013	**(2 487 280)**	**(2 487 280)**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		118 994 069	99 041 788
Grants		124 154 618	89 155 271
Interest income		9 073 110	21 826 154
Other receipts		78 760	534 377
		252 300 557	210 557 590
Payments			
Employee costs		(74 049 783)	(70 243 580)
Suppliers		(186 923 095)	(159 719 255)
Finance costs		-	(2 199)
		(260 972 878)	(229 965 034)
Net cash flows from operating activities	23	**(8 672 321)**	**(19 407 444)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(525 588)	(462 073)
Net increase/(decrease) in cash and cash equivalents		**(9 197 909)**	**(19 869 517)**
Cash and cash equivalents at the beginning of the year		21 321 342	41 190 859
Cash and cash equivalents at the end of the year	9	**12 123 433**	**21 321 342**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sanitation Revenue	37 533 054	-	**37 533 054**	37 316 119	**(216 935)**	
Water Revenue	134 281 930	-	**134 281 930**	129 631 828	**(4 650 102)**	Refer to Note 36
Other Revenue	46 623 300	-	**46 623 300**	37 184 859	**(9 438 441)**	Refer to Note 36
Interest External	290 000	-	**290 000**	558 709	**268 709**	
Interest received - outstanding debtors	23 072 184	-	**23 072 184**	23 555 647	**483 463**	
Total revenue from exchange transactions	**241 800 468**	**-**	**241 800 468**	**228 247 162**	**(13 553 306)**	
Revenue from non-exchange transactions						
Taxation revenue						
Other Revenue	126 905 571	14 623 428	**141 528 999**	141 416 207	**(112 792)**	
Total revenue	**368 706 039**	**14 623 428**	**383 329 467**	**369 663 369**	**(13 666 098)**	
Expenditure						
Personnel	(79 447 000)	(609 188)	**(80 056 188)**	(72 705 769)	**7 350 419**	Refer to Note 36
Remuneration of Board Members	(288 000)	-	**(288 000)**	(290 427)	**(2 427)**	
Depreciation and amortisation	(2 950 000)	-	**(2 950 000)**	(2 258 335)	**691 665**	
Debt impairment	(72 426 336)	-	**(72 426 336)**	(77 303 556)	**(4 877 220)**	Refer to Note 36
Collection costs	(6 135 240)	-	**(6 135 240)**	(4 436 943)	**1 698 297**	
Bulk purchases	(97 259 786)	(9 511 440)	**(106 771 226)**	(111 719 639)	**(4 948 413)**	Refer to Note 36
General Expenses	(110 199 678)	(4 502 800)	**(114 702 478)**	(103 570 221)	**11 132 257**	Refer to Note 36
Total expenditure	**(368 706 040)**	**(14 623 428)**	**(383 329 468)**	**(372 284 890)**	**11 044 578**	
Operating deficit	**(1)**	**-**	**(1)**	**(2 621 520)**	**(2 621 519)**	
Loss on disposal of assets and liabilities	-	-	**-**	(252 956)	**(252 956)**	
Deficit before taxation	**(1)**	**-**	**(1)**	**(2 874 477)**	**(2 874 476)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(1)**	**-**	**(1)**	**(2 874 477)**	**(2 874 476)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2 415 000	-	**2 415 000**	2 864 307	**449 307**	
Other Debtors	12 530 000	-	**12 530 000**	7 466 852	**(5 063 148)**	
Receivables from exchange transactions	72 674 000	-	**72 674 000**	70 642 155	**(2 031 845)**	
Cash and cash equivalents	30 783 000	-	**30 783 000**	12 123 433	**(18 659 567)**	
	118 402 000	**-**	**118 402 000**	**93 096 747**	**(25 305 253)**	
Non-Current Assets						
Property, plant and equipment	12 548 000	-	**12 548 000**	9 453 391	**(3 094 609)**	
Total Assets	**130 950 000**	**-**	**130 950 000**	**102 550 138**	**(28 399 862)**	
Liabilities						
Current Liabilities						
Other Liabilities	3 100 000	-	**3 100 000**	3 456 282	**356 282**	
Trade Payables and Other Payables	110 996 000	-	**110 996 000**	101 581 136	**(9 414 864)**	
	114 096 000	**-**	**114 096 000**	**105 037 418**	**(9 058 582)**	
Total Liabilities	**114 096 000**	**-**	**114 096 000**	**105 037 418**	**(9 058 582)**	
Net Assets/(Liabilities)	**16 854 000**	**-**	**16 854 000**	**(2 487 280)**	**(19 341 280)**	
Net Assets/ (Liabilities)						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus/(deficit)	16 854 000	-	**16 854 000**	(2 487 280)	**(19 341 280)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	302 084 433	15 976 233	**318 060 666**	243 227 447	**(74 833 219)**	
Interest income	22 147 787	-	**22 147 787**	9 073 110	**(13 074 677)**	
	324 232 220	**15 976 233**	**340 208 453**	**252 300 557**	**(87 907 896)**	
Payments						
Suppliers and Employee costs	(323 232 220)	-	**(323 232 220)**	(260 972 878)	**62 259 342**	
Finance costs	-	(15 976 233)	**(15 976 233)**	-	**15 976 233**	
	(323 232 220)	**(15 976 233)**	**(339 208 453)**	**(260 972 878)**	**78 235 575**	
Net cash flows from operating activities	**1 000 000**	**-**	**1 000 000**	**(8 672 321)**	**(9 672 321)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(3 200 000)	-	**(3 200 000)**	(525 588)	**2 674 412**	
Cash flows from financing activities						
Increase(Decrease) in Consumer deposits	200 000	-	**200 000**	-	**(200 000)**	
Net cash flows from financing activities	**200 000**	**-**	**200 000**	**-**	**(200 000)**	
Net increase/(decrease) in cash and cash equivalents	(2 000 000)	-	**(2 000 000)**	(9 197 909)	**(7 197 909)**	
Cash and cash equivalents at the beginning of the year	32 783 000	-	**32 783 000**	21 321 342	**(11 461 658)**	
Cash and cash equivalents at the end of the year	**30 783 000**	**-**	**30 783 000**	**12 123 433**	**(18 659 567)**	

Accounting Policies

1. Presentation of Audited Annual Financial Statements

The annual financial statements have been prepared in accordance with the Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and additional disclosure requirements in terms of Municipal Finance Management Act (MFMA).

In terms of GRAP, in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order, in developing an accounting policy for such a transaction, event or condition.

- Statements of GRAP that have been issued, but are not yet effective
- International Public Sector Accounting Standards (IPSAS)
- International Financial Reporting Standards (IFRS)

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These financial statements are 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 annual financial statements are presented in South African Rand which is the company's functional currency.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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 entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.1 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset at the disposal date and is recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 - 50 Years
Plant and machinery	10 Years
Furniture and fixtures	5 Years
Motor vehicles	5 Years
IT equipment	3 Years

1.2 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

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.

Initial computer software costs are recorded as intangible assets at cost. Computer software is lecensed to the computer on which it is installed and cannot be resold. Therefore, it is deemed that compuetr software has no residual value. Yearly maintenance and update fees are payable for software used. These fees are accounted for as expenses as and when it becomes payable. In light of the annual fees payable, initial software costs are amortised on a straight line basis over 3 years.

Computer sotware is capitalised to computer equipment where it forms an integral part of the equipment. Where the software does not form an integral part of the equipment, it is separately recognised as an intangible asset.

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

Item	Useful life
Computer software	3 Years

Accounting Policies

1.3 Financial instruments

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and Cash equivalents	Financial asset measured at amortised cost
Trade Receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade Payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Accounting Policies

1.3 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.3 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.3 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.4 Tax

Tax expenses

The entity is exempt from tax in terms of section 10(1)cA(ii) of the Income Tax Act, 1962 (Act 58 of 1962).

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This lease liability or asset is not discounted. (Refer to note 23).

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost of net realisable value.

Raw Materials and components are valued at lower of cost or net realisable value. In general, the basis of determing cost is the weighted average method.

Water stock is measured at the lower of cost or net realisable value on the first-in-first-out basis.

Redundant and slow moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Accounting Policies

1.6 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.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Stock items are considered obsolete or redundant if there has not been a movement for more than 550 days.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

1.8 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.
The entity asses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential. The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.
When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

Reversal of an impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.
After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cashgenerating asset only occur when there is clear evidence that such a redesignation is appropriate.

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 surplus sharing and 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 entity has a defined contribution plan registered with Alexander Forbes Retirement Fund (Fund Registration number 12/8/34766).

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.10 Provisions and contingencies

Provisions are recognised when:

- the entity 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 best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.10 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

1.11 Revenue from exchange transactions

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service for goods and services and is recognised at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity., and excludes value added tax.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, recovery of the consideration is considered probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, trade discounts and volume rebates.

Service charges

Service charges are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumptions are made monthly when meter readings are not available. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

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Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Interest

Interest is recognised on a time proportion bases, in surplus or deficit, using the effective interest rate method.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Operational subsidy

Operational Losses are invoiced to City of Tshwane Mtropolitan Municipality on a monthly basis limited to budgted amount as approved for the financial year. The operational subsidy is recognised as income on the invoice date.

Government Grants

Government grants are recognised as revenue when:

it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; the amount of the revenue can be measured reliably; and to the extent that there has been compliance with any restrictions associated with the grant.

1.13 Comparative figures

When the presentation or classification of items in the annual financial statement is amended, prior period comparative amounts are reclassified. The nature and reason of the recalssification is disclosed.

When accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

The comparative figures (accounting policy and disclosure) may not be consistent with the current year accounting policies and disclosures due to the implementation of the new GRAP standards.

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Accounting Policies

1.15 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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1.16 Use of estimates

The preparation of audited annual financial statements in conformity with Statements of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity’s accounting policies relevant to reported amount of assets and liabilities, revenue and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the audited annual financial statements are disclosed in the relevant sections of the audited annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.17 Budget information

Municipal entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipal entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.18 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

All related party transactions and balances not in the ordinary course of business are disclosed. However, due to the significance of transactions and balances with the parent municipality, these items warrant separate disclosure irrespective of whether they are at arms length or not.

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

Notes to the Audited Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21 – Impairment of non- cash-generating assets
The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. The Standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.

This standard is effective for financial years commencing on or after 1 April 2012.

The entity has adopted the standard for the first time in the 2013 financial statements.

The adoption of this standard did not have a material impact on the results of the entity.

GRAP 23 – Revenue from non-exchange transactions
The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

This standard is effective for financial years commencing on or after 1 April 2012.

The entity has adopted the standdard for the first time in the 2013 financial statements.

The impact of the standard is set out in note Prior period restatement as it has to be implemented retrospectively.

GRAP 24 – Presentation of budget information in financial statements
This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

This standard is effective for financial years commencing on or after 1 April 2012.

The entity has adopted the standdard for the first time in the 2013 financial statements.

The adoption of this standard did not have a material impact on the results of the entity, but resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 26 – Impairment of cash-generating assets
The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

This standard is effective for financial years commencing on or after 1 April 2012.

The entity has adopted the standdard for the first time in the 2013 financial statements.

The adoption of this standard did not have a material impact on the results of the entity.

GRAP 104 – Financial Instruments
The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial

Notes to the Audited Annual Financial Statements

2. New standards and interpretations (continued)
instruments.

This standard is effective for financial years commencing on or after 1 April 2012.

The entity has adopted the standdard for the first time in the 2013 financial statements.

The adoption of this standard did not have a material impact on the results of the entity, but resulted in more disclosure than would have previously been provided in the financial statements.

Standards not relevant to SWA:

GRAP 103 – Heritage Assets
The objective of this Standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements.

This standard is effective for financial years commencing on or after 1 April 2012.

Notes to the Audited Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity’s accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 18 – Segment Reporting
The objective of this Standard is to establish principles for reporting financial information by segments.

No effective date has been determined by the Minister of Finance.

The effective date of the standard is for years commencing on or after 01 April 2013.

The entity expects to adopt the standard for the first time in the 2014 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 20 – Related Party Disclosures
The objective of this Standard is to ensure that a reporting entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

No effective date has been determined by the Minister of Finance.

The entity expects to adopt the standard for the first time in the 2014 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currentlyt provided in the financial statements.

GRAP 25- Employee benefits
The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:
(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
(b) an expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

This standard is effective for financial years commencing on or after 1 April 2013.

The entity expects to adopt the standard for the first time in the 2014 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 105 – Transfer of functions between entities under common control
The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

No effective date has been determined by the Minister of Finance.

The entity expects the standard to not have any impact on the 2014 financial statements.

GRAP 106- Transfer of functions between entities not under common control
The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

No effective date has been determined by the Minister of Finance.

The entity expects the standard to not have any impact on the 2014 financial statements.

Notes to the Audited Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107 – Mergers
The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.

No effective date has been determined by the Minister of Finance.

The entity expects the standard to not have any impact on the 2014 financial statements.

Interpretations not yet effective

IGRAP 1 – Applying the probability test on initial recognition of revenue
This Interpretation of the Standards of GRAP provides guidance on how an entity applies the probability test on initial recognition of revenue where credit is extended for the settlement of an exchange or non-exchange revenue transaction and uncertainty exists about the entity's ability to collect such revenue based on past history or because discretion about collectability is exercised subsequently.

This interpretation shall apply for annual financial statements covering periods beginning on or after 1 April 2013.

The entity expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

IGRAP 7 – The limit on a defined benefit asset, minimum funding requirements and their interaction
This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits. For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

This interpretation shall apply in conjunction with the effective date of GRAP 25 for annual financial statements covering periods beginning on or after 1 April 2013.

The entity expects the standard to not have any impact on the 2014 financial statements.

IGRAP 11 – Consolidation – special purpose entities
This interpretation provides guidance on when a special purpose entity should be consolidated.

This interpretation becomes effective by date determined by the Minister of Finance.

The entity expects the standard to not have any impact on the financial statements.

IGRAP 12 – Jointly controlled entities – non-monetary contributions by venturers
This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

This interpretation becomes effective by date determined by the Minister of Finance.

This interpretation provides guidance on the internal expenditure on the development and operation of an entities own website for internal or external access.

This interpretation shall apply for annual financial statements covering periods beginning on or after 1 April 2013.

The entity expects the standard to not have any impact on the financial statements.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions
Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

Notes to the Audited Annual Financial Statements

2. New standards and interpretations (continued)

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The entity expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 12 (as revised 2012): Inventories
Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The entity expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 13 (as revised 2012): Leases
Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The entity expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements

The aggregate impact of the initial application of the statements and interpretations on the entity's audited annual financial statements is expected to be as follows:

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

3. Property, plant and equipment

	2013			2012		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	7 383 244	(2 514 756)	4 868 488	7 834 570	(2 349 159)	5 485 411
Plant and machinery	12 679 316	(9 012 286)	3 667 030	12 650 780	(7 765 781)	4 884 999
Furniture and fixtures	1 593 015	(1 205 057)	387 958	1 762 934	(1 310 297)	452 637
Motor vehicles	4 117 967	(3 934 206)	183 761	4 435 426	(4 067 915)	367 511
IT equipment	2 682 833	(2 336 677)	346 156	3 367 018	(3 117 081)	249 937
Total	**28 456 375**	**(19 002 982)**	**9 453 393**	**30 050 728**	**(18 610 233)**	**11 440 495**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Buildings	5 485 411	-	(223 159)	(393 764)	-	4 868 488
Plant and machinery	4 884 999	64 262	(751)	(1 281 480)	-	3 667 030
Furniture and fixtures	452 637	150 444	(24 030)	(191 093)	-	387 958
Motor vehicles	367 511	-	-	(183 750)	-	183 761
IT equipment	249 937	310 882	(5 014)	(208 247)	(1 402)	346 156
	11 440 495	**525 588**	**(252 954)**	**(2 258 334)**	**(1 402)**	**9 453 393**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Buildings	5 861 181	21 938	-	(397 708)	5 485 411
Plant and machinery	6 225 464	63 288	-	(1 403 753)	4 884 999
Furniture and fixtures	407 390	209 437	-	(164 190)	452 637
Motor vehicles	764 303	-	-	(396 792)	367 511
IT equipment	386 375	167 410	(2)	(303 846)	249 937
	13 644 713	**462 073**	**(2)**	**(2 666 289)**	**11 440 495**

During the current year certain laptops and computer equipment to the net book value of R 1 402 were impaired.

4. Operating lease asset (accrual)

	2013	2012
Non-current liabilities	(63 550)	(132 599)
Current liabilities	(85 155)	(246 827)
	(148 705)	**(379 426)**

Operating Lease assets/(accrual) relates to leased buildings and or offices during the year ending 30 June 2013.

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

5. Inventories

Raw materials, components	2 212 648	2 090 363
Water Stock	651 659	515 209
	2 864 307	2 605 572
Obsolete Inventory Items	(93 499)	(88 800)
	2 770 808	**2 516 772**

Carrying value of inventories net realisable value	651 659	515 209
Inventories recognised as an expense during the year	111 719 639	92 052 639

Inventory consists of water stock, spares and consumables which will be utilised by the entity in their daily business operations.

Raw materials and spare parts that have not moved for 550 days are considered obsolete/ redundant and are written off.

6. Receivables from exchange transactions

Trade debtors	382 592 056	343 139 615
Madibeng Municipality	21 940 518	27 940 518
VAT on Debtors	(2 043 486)	(1 674 823)
Provision for Impairment: Consumer Debtors	(366 143 311)	(331 073 798)
Other Receivables	883 932	309 504
Provision for Impairment: Madibeng Municipality	(21 940 518)	(26 440 518)
	15 289 191	**12 200 498**

Other Receivables comprise of:	2013	2012
Prepaid Insurance	537 851	-
Rental Deposits	160 517	160 517
Sundry Debtors	185 564	148 987
	883 932	**309 504**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates:

Credit quality of trade and other receivables		
Trade Debtors	14 428 723	10 584 050
Other Receivables	860 468	300 658
Madibeng Municipality	-	1 315 790
	15 289 191	**12 200 498**

Trade and other receivables past due but not impaired

Trade and other receivables which are more than 1 month past due are not considered to be impaired. At 30 June 2013, R 8 391 007 (2012: R 9 437 904) were past due but not impaired.

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

1 month past due	901 962	990 009
2 months past due	685 828	720 665
3 months past due	6 803 217	7 727 230

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

6. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2013, trade and other receivables of R 77 303 556 (2012: R 82 730 321) were impaired and provided for.

The amount of the provision was R 388 083 828 as of 30 June 2013 (2012: R 357 514 315).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(357 514 316)	(301 033 922)
Provision for impairment	(86 020 279)	(92 262 684)
Amounts written off as uncollectible	50 950 767	35 782 290
Bad Debt Recovered: Madibeng Municipality	4 500 000	-
	(388 083 828)	**(357 514 316)**

The creation and release of provision for impaired receivables have been included in other income in the statement of financial performance.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The entity does not hold any collateral as security.

7. Receivables from non-exchange transactions

Government grants and subsidies	75 421 783	60 120 469
Provision for VAT: Other Receivables	(9 262 324)	(7 383 216)
	66 159 459	**52 737 253**

Credit quality of receivables from non-exchange transactions

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates:

Receivables from non-exchange transactions

City of Tshwane Metropolitan Municipality: Operational Losses	59 579 857	47 559 932
City of Tshwane Metropolitan Municipality - Waste Water Treatment Works	6 579 602	5 177 321
	66 159 459	**52 737 253**

8. VAT receivable

VAT	2 965 613	2 974 060

VAT is payable on a cash basis. Only once payment is received from debtors is VAT paid over to SARS.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8 900	8 900
Bank balances	12 114 533	21 312 442
	12 123 433	**21 321 342**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

9. Cash and cash equivalents (continued)

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ODI 32250738 - Standard Bank Current Account	7 336 707	2 205 649	22 150 482	7 189 506	1 572 856	21 890 068
ODI 31906842 - Standard Bank Salary Account	166 095	128 192	67 536	166 096	128 192	67 536
ODI 738717959 - Standard Bank Call Account	3 896 360	18 508 342	16 827 485	3 896 360	18 508 342	16 827 485
SWA 40 5113 9634 - ABSA Current Account	706 559	954 575	2 256 070	706 559	954 575	2 256 070
SWA 90 7418 5817 - ABSA Money Market Account	156 627	148 477	140 800	156 012	148 477	140 800
Total	**12 262 348**	**21 945 235**	**41 442 373**	**12 114 533**	**21 312 442**	**41 181 959**

10. Unspent conditional grants and receipts

Deferred Income consists of income grants to use in the following projects. These funds will be utilised in the following financial year.

Unspent conditional grants and receipts comprises of:

	2013	2012
Unspent conditional grants and receipts		
New Meter and repeat offenders project	749 916	1 719 916
Housing Project	414 326	133 100
	1 164 242	**1 853 016**

Movement during the year

	2013	2012
Balance at the beginning of the year	1 853 016	2 291 501
Additions during the year	1 800 255	704 934
Income recognition during the year:	-	-
New Meter and repeat offenders project	(970 000)	-
Housing Project	(1 519 029)	(1 143 419)
	1 164 242	**1 853 016**

11. Trade Payables and Other Payables

	2013	2012
Trade payables	42 979 893	43 704 582
Salary Control Account	1 086 496	893 045
Client Water Deposits	3 493 676	3 084 553
Accrued leave pay	4 390 609	5 042 043
Accrued bonus	1 578 658	1 610 788
Accrual for Water Purchases	61 688 774	52 035 940
Other payables	3 447 553	1 596 541
Provision for VAT on Payables	(8 729 429)	(7 396 711)
	109 936 230	**100 570 781**

All current liabilities will be settled within 12 months. Suppliers are paid within 30 days from Invoice date.

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

12. Financial instruments disclosure

Categories of financial instruments

2013

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	14 428 723	14 428 723
Other receivables	860 468	860 468
City of Tshwane Municipality	59 579 857	59 579 857
City of Tshwane Municipality - Waste Water Treatment Works	6 579 602	6 579 602
Cash and cash equivalents	12 123 433	12 123 433
	93 572 083	**93 572 083**

Financial liabilities

	At amortised cost	Total
Operating Lease Accrual	148 705	148 705
Trade and other payables from exchange transactions	109 936 230	109 936 230
Unspent conditional grants and receipts	1 164 242	1 164 242
	111 249 177	**111 249 177**

2012

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	10 584 050	10 584 050
Other receivables	300 658	300 658
Madibeng Municipality	1 315 790	1 315 790
City of Tshwane Municipality	47 559 932	47 559 932
City of Tshwane Municipality - Waste Water Treatment Works	5 177 321	5 177 321
Cash and cash equivalents	21 321 342	21 321 342
	86 259 093	**86 259 093**

Financial liabilities

	At amortised cost	Total
Operating Lease accrual	379 426	379 426
Trade and other payables from exchange transactions	100 570 781	100 570 781
Unspent Conditional Grants	1 853 016	1 853 016
	102 803 223	**102 803 223**

13. Revenue

Waste Water Income	36 431 229	32 960 942
Water Income	145 302 042	137 531 437
	181 733 271	**170 492 379**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

13. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Waste Water Income	36 431 229	32 960 942
Water Income	145 302 042	137 531 437
	181 733 271	**170 492 379**

The amount included in revenue arising from non-exchange transactions is as follows:		
Revenue from non-exchnage transactions		
Transfer revenue		
Government grants & subsidies	134 374 288	102 564 175

14. Government grants and subsidies

Operational Losses Subsidy	132 147 288	98 379 175
Operations and Maintenance Water Reticulation Grant - Department of Water Affairs	2 227 000	4 185 000
	134 374 288	**102 564 175**

Government Grants

Included in above are the following grants and subsidies received:

Current year receipts	2 227 000	4 185 000
Conditions met - transferred to revenue	(2 227 000)	(4 185 000)
	-	-

15. Other Income

Other Income	4 026 129	614 253
Project Income	-	1 143 419
	4 026 129	**1 757 672**

Other Income comprise of:		
Sundry Income	78 760	614 253
Bad Debt Recovered	3 947 369	-
Sundry Income - Projects	-	1 143 419
	4 026 129	**1 757 672**

16. Cost of sales

Bulk Purchases	111 719 639	92 052 639
Sewer Purification Costs	12 503 524	8 298 968
Water and Electricity	8 739 387	8 105 619
	132 962 550	**108 457 226**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

17. General expenses

Accounting fees	138 190	136 562
Advertising	1 041 656	653 550
Assessment rates & municipal charges	91 021	169 382
Auditors remuneration	1 611 146	1 065 802
Bank charges	338 600	315 788
Cleaning	1 138 055	1 100 736
Computer expenses	74 016	171 994
Consulting and professional fees	3 270 313	2 145 914
Consumables	3 407	-
Delivery expenses	20 873	23 579
Donations	-	19 000
Entertainment	333 649	390 047
Gifts	-	105 438
Insurance	1 004 514	985 899
Lease rentals on operating lease	4 909 369	5 335 709
Motor vehicle expenses	1 426 473	1 216 145
Postage and courier	15 434	2 212
Printing and stationery	585 973	344 288
Protective clothing	286 533	454 926
Security (Guarding of municipal property)	7 322 979	4 604 313
Staff welfare	307 873	393 611
Subscriptions and membership fees	11 264	10 957
Telephone and fax	1 460 548	1 282 617
Training	559 599	308 897
Travel - local	72 703	53 467
Electricity	536 909	280 423
Garden Services	687 411	615 131
Board Fees	257 136	175 320
Employees Team Building	-	140 387
Indigents Rebate	12 722 957	11 174 950
Billing charges	4 436 943	4 555 115
Other expenses	6 183 550	6 455 881
	50 849 094	**44 688 040**

18. Operating deficit

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

Operating lease and Rental Charges		
Premises		
• Contractual amounts	2 068 720	2 217 121
Motor vehicles		
• Contractual amounts	1 279 680	1 634 483
Equipment		
• Contractual amounts	187 910	364 776
Plant and equipment		
• Contingent amounts	1 373 059	1 119 329
	4 909 369	**5 335 709**

Loss on sale of property, plant and equipment	(252 957)	(2)
Depreciation on property, plant and equipment	2 258 335	2 666 289
Employee costs	73 559 670	72 144 525
Consulting and Professional Services	3 120 444	2 015 273
Inventory write-down	93 499	88 800

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

19. Employee related costs

Basic	52 195 615	50 856 084
Bonus	3 242 548	3 316 001
Medical aid - company contributions	7 020 396	6 340 880
Unemployment Insurance Fund	398 256	368 000
Skills Development Levy	635 330	578 217
Other payroll levies	613 556	44 592
Leave pay provision charge	783 260	2 509 004
Group Life Insurance	3 250 642	3 082 838
Housing Bond Subsidies	755 642	600 755
Company Contribution - Provident Fund	4 664 425	4 448 154
	73 559 670	**72 144 525**

20. Debt impairment

Debt impairment	77 303 556	82 730 321

21. Interest Received

Interest revenue		
Interest from Bank	558 709	748 284
Interest charged on trade and other receivables	23 555 647	21 077 870
	24 114 356	**21 826 154**

22. Auditors' remuneration

Fees	532 036	1 054 747
Adjustment for previous year	1 079 110	-
Expenses	-	11 055
	1 611 146	**1 065 802**

23. Cash used in operations

Deficit	(2 874 477)	(16 609 598)
Adjustments for:		
Depreciation and amortisation	2 258 335	2 666 289
Loss on disposal of assets	252 958	2
Debt impairment	77 303 556	82 730 321
Movements in operating lease assets and accruals	(230 721)	134 334
Impairment Loss	1 402	-
Changes in working capital:		
Inventories	(254 036)	(412 456)
Receivables from exchange transactions	(2 919 102)	(2 913 986)
Other receivables from non-exchange transactions	(13 591 797)	-
Consumer debtors	(77 303 556)	(82 730 321)
Trade Payables and Other Payables	9 365 444	3 160 416
VAT	8 447	(4 993 960)
Unspent conditional grants and receipts	(688 774)	(438 485)
	(8 672 321)	**(19 407 444)**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

24. Commitments

Commitments

Minimum payments due		
- within one year	11 485 135	2 490 636
- in second to fifth year inclusive	12 569 577	1 566 165
	24 054 712	**4 056 801**

Operating lease payments represent rentals payable by the entity for certain of its office properties and equipment. Leases are negotiated for terms varying between three and seven years. No contingent rent is payable.

Included in the commitments above are multi-year contracts that Sandspruit Works Association has a financial commitment.

25. Contingencies

None identified.

26. Related parties

Relationships	
Parent Municipality	City of Tshwane Metropolitan Municipality

Related party balances

CTMM Operating Loss Account	6 232 263	2 140 761
CTMM Sanitation Losses	(34 298 530)	(34 298 530)
CTMM Waste Water Treatment Works	7 500 745	5 902 146
CTMM Water Accounts	908 326	491 752

Related party transactions

Sales to CTMM	94 688 898	(84 139 081)
Subsidy Received from CTMM	(132 147 287)	(98 379 175)
Water Purchases from CTMM	112 082 369	91 993 276
Department of Water Affairs Subsidy received via CTMM	2 227 000	(4 185 000)
Electricity Purchases from CTMM	2 591 529	2 575 111

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

27. Board Members and Executive Managers Emoluments

Executive Director and Managers

2013

	Salary or Fee	Bonuses and Performance related payments	Medical and Retirement fund contributions	Expense Allowance	Total
Executive Director:	-	-	-	-	-
MJ Taetsane	1 162 200	118 720	-	173 769	1 454 689
	-	-	-	-	-
Executive Managers:	-	-	-	-	-
Chief Financial Officer	610 270	37 688	150 495	63 808	862 261
Human Resources Manager	424 883	30 335	45 825	16 494	517 537
Operations Manager	610 743	38 185	158 997	134 043	941 968
Marketing and Communications Manager	646 708	35 160	103 547	43 015	828 430
Legal Manager	614 971	35 160	106 105	89 101	845 337
	4 069 775	**295 248**	**564 969**	**520 230**	**5 450 222**

2012

	Salary or Fee	Bonuses and Performance related payments	Medical and Retirement fund contributions	Expense Allowance	Total
Executive Directors					
MJ Taetsane	1 042 660	-	-	112 812	1 155 472
Executive Managers					
Chief Financial Officer	560 778	35 059	138 724	67 182	801 743
Human Resources Manager	579 651	33 863	128 256	33 684	775 454
Operations Manager	600 026	35 521	144 689	58 633	838 869
Marketing and Communications Manager	553 537	31 735	93 114	33 841	712 227
Legal Manager	522 326	30 660	100 240	43 381	696 607
	3 858 978	**166 838**	**605 023**	**349 533**	**4 980 372**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

27. Board Members and Executive Managers Emoluments (continued)

Non-executive Directors

2013

	Board Fees	Total
ME Makgato	5 844	5 844
Adv K-D Garlip	46 752	46 752
CV Maboka	58 440	58 440
KA Eales	40 908	40 908
LN Bokaba	64 284	64 284
T Moromane	40 908	40 908
	257 136	**257 136**

2012

KH Sekhokho	52 596	52 596
M Dooms	58 440	58 440
ME Makgato	64 284	64 284
	175 320	**175 320**

28. Prior period restatements

Due to the adoption of GRAP 23, certain prior year amount had to be restated as the standard had to be applied retrospective. The amount of R 4 185 000 which related to Grant and an amount of R 98 379 175 relating to Operational Losses subsidy received the City of Tshwane Metropolitan had to be reclassified from Other Income into Revenue from Non Exhange transactions and are included in the total revenue amount. The impact is listed below:

Statement of Financial Performance		
Other Income as previously reported	-	(5 952 672)
Other Income as a result of restatement	-	(1 757 672)
Operational Loss Subsidy Included in Other Income as previously reported	-	(98 379 175)

29. Comparative figures

Certain comparative figures have been reclassified.

In the prior year an amount amounting to R 19 639 575.98 which relates to Authority Billing was incorrectly included as part cost of sales. This amount is raised as revenue and wiritten off immediately and included as part of Operational loss subsidy which is claimable from the City of Tshwane Metropolitan Municipality.

The effects of the reclassification are as follows:

Statement of Financial Performance		
Reclassification in Revenue		
Revenue as previously reported in prior year	-	190 131 955
Reclassification: Authority Billing	-	(19 639 575)
Restated Revenue amount in prior year	-	170 492 380
Reclassification in cost of sales		
Cost of Sales as previously reported in prior year	-	(128 096 802)
Reclassification: Authority Billing	-	19 639 575
Restated Cost of Sales amount in the prior year	-	(108 457 227)

30. Risk management

Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity's financial performance. The directors provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments.

Cash flow forecasts are prepared monthly and monitored adequately.

The table below analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 30 June 2013	Due in less than a year	Due in one to two years
Trade and Other Payables	109 936 230	-
Deferred Income	1 164 242	-
Lease Liabilities	85 155	63 550
	111 185 627	**63 550**

As at June 2012	Due in less than one year	Due in one to two years
Trade and Other Payables	100 570 781	-
Deferred Income	1 853 016	-
Lease Liabilities	246 827	132 599
	102 670 624	**132 599**

30. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the entity when the customer or counterparty to the financial instrument fails to meet its contractual obligations and arises principally from the entity's receivables from customers.

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise residential, government and commercial consumers. Management evaluated credit risk relating to customers on an ongoing basis. Since our customers are not independently rated, credit control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are settled in cash or using major credit cards.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to the credit risk as the reporting date was as follows:

Financial instrument	**2013**	**2012**
Trade receivables	14 428 723	10 584 050
City of Tshwane Metropolitan Municipality	59 579 857	47 559 932
City of Tshwane Metropolitan Municipality - Waste Water Treatment Works	6 579 603	5 177 321
Other Receivables	860 468	300 658
Madibeng Municipality	-	1 315 790
ABSA Bank	862 571	1 103 052
Standard Bank	11 251 961	20 209 390

Market risk

Interest rate risk

As the entity has no significant interest-bearing assets, the entity’s income and operating cash flows are substantially independent of changes in market interest rates.

31. Going concern

We draw attention to the fact that at 30 June 2013, the entity had accumulated deficits of R (2 487 280) and that the entity's total liabilities exceed its assets by R (2 487 280). Agreement has been entered into between the Sandspruit Works Association and City of Tshwane Metropolitan Municipality (CTMM), to subordinate the amount of R 34 298 530 owing to CTMM. The subordination agreement from the City of Tshwane Metropolitan Municipality (parent municipality) will remain in force for as long as the liabilities of the entiy exceed their assets, fairly valued.

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 ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the entity and that the entity is also supported financially by the parent municpality.

32. Events after the reporting date

The Accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

33. Fruitless and wasteful expenditure

Development of Demand Management Policy	197 600	-
Distribution of Water Interruption pamphlets	33 000	-
Occupational Health and Safety awareness	191 835	-
Printing and distribution of water interruption pamphlets	192 000	-
Repairs to eastern reservoir	48 728	-
Website design and development of corporate identity	196 879	-
	860 042	**-**

The above amounts charged are considered excessive in relation to the value of the services received (value for money) and also due to the fact that certain services could have been performed internally to avoid incurring uncessary and unwarranted expenditures. To date, no disciplinary or criminal charges have been taken. The matters are still under investigation. Currently, measures have been put in place to detect and prevent fruitless and wasteful expenditure.

No fruitless and wasteful expedniture were identified in the 2011/2012 financial year.

34. Irregular expenditure

Opening balance	7 262 635	-
Add: Irregular Expenditure - current year	3 230 486	-
Amount identified in current year relating to prior year: Billing Expenditure	-	2 950 440
Billing expenditure	-	2 976 046
Design of valve chambers for installation of Bulk Water meter	-	268 094
Analyse pressure and design system and prepare billing quantity	-	349 570
Other Irregular expenditures	-	718 485
	10 493 121	**7 262 635**

Analysis of expenditure awaiting condonation per age classification

Current year	3 230 486	7 262 635
Prior years	7 262 635	-
	10 493 121	**7 262 635**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Accomodation for meeting and lunch costs	Matter is still under investigation	14 429
Investigation of Water supply and reticulation	Matter is still under investigation	383 470
Replacement and upgrading of existing AGB Water Meter Boxes	Matter is still under investigation	145 464
Operations and Maintenance project - DWA Funding	Matter is still under investigation	2 280 000
Purchase of Four Data collectors and threee field service terminal	Matter is still under investigation	35 332
Repairing and Manufacturing of overflow pipe and 11 meter step ladder	Matter is still under investigation	9 870
Bedding and backfilling of a UPVC pipe	Matter is still under investigation	52 000
Collecting water stands, assemble, weld and paint	Matter is still under investigation	26 730
Fumigation service	Matter is still under investigation	17 940
Short Neck Repair of fire hydrants	Matter is still under investigation	80 500
Other Irregular expenditures	Matters are still under investigation	184 751
		3 230 486

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

35. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(2 874 477)	(16 609 598)
Adjusted for:		
Over budgeted on Sanitation Revenue	216 935	-
Over budgeted on Water Revenue	4 650 102	-
Over budgeted on Watse Water Revenue	9 438 441	-
Over budgeted on Revenue	-	10 834 087
Over budgeted on Other Income	112 792	8 565 098
Interest on Debtors	(483 463)	-
Over budgeted on interest received	(268 709)	321 633
(Over)/ under budgeted on personnel expenses	(7 350 419)	(1 016 287)
Remuneration of board memebrs	2 427	-
Over)/ under budgeted on depreciation and amortisation	(691 665)	(283 711)
Under budgeted on interest paid	-	2 199
(Over)/ under budgeted on Collection costs	(1 698 297)	-
(Over)/ under budgeted on debt impairment	4 877 220	12 133 321
Under/ (over) budgeted on workshops and conferences	-	24 377
Under budgeted on repairs and maintenance	-	(16 814 173)
Under budgetd on deficit on disposal of property, plant and equipment	-	2
(Over)/ under budgeted on general expenses	(11 132 257)	1 699 633
(Over)/ under budgeted on Bulk Purchases	4 948 412	-
Under budgeted on project expenses	-	1 143 419
Loss on disposal	252 957	-
Net deficit per approved budget	**(1)**	**-**

36. Budget differences

Material differences between budget and actual amounts

During the current year there was a underspending in Personnel costs as some positions were only filled out late during the year. The overspending in general expeneses was mainly due to bulk purchases as result of more kiloliters were purchased to meet consumption.

Changes from the approved budget to the final budget

The changes between the approved and final budget was mainly due to an increase in the price that the City of Tshwane Metropolitan Municipality charged SWA for bulk purchases. The CTMM increased its rate to SWA by 10%. The adjustment had to be incorporated in the Operational Losses subsidy the SWA invoices to CTMM.

37. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities		
Actual amount as presented in the budget statement	(8 672 321)	(19 407 444)
Investing activities		
Actual amount as presented in the budget statement	(525 588)	(462 073)
Net cash generated from operating, investing and financing activities	**(9 197 909)**	**(19 869 517)**

Notes to the Audited Annual Financial Statements

Figures in Rand	2013	2012

38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements .

Total Deviations occured in the current year comprise of the following:		
Sole supplier Caseware Software	110 916	-
Computer repairs by manufacturer	30 974	-
Emergency Interdict against illegal strike	38 786	-
Emergency work for water shortages	116 549	-
Emergency work done at Eastern Resevoir leakage	262 200	-
WMD Water Meters with AGB Boxes and 3 days training manual and DVD softwares	1 105 800	-
Total Deviations occurred in the prior year		
Water Restrictions at Madibeng Municipality	-	155 850
Installation of new 15mm bulk water connection	-	128 307
Restoring water supply at Madibeng Municipality	-	55 850
Supply of Hydrants locks to lock heads	-	172 500
Construction of pipes, welding, tar patch Strom water and PEPS	-	67 260
Winetrveldt: Grass cutting, fumigation and yard cleaning	-	25 621
Fumigation of snakes at NTI, Garankuwa, Mabopane and Winterveldt	-	21 659
Winterveldt: Building Maintenance	-	20 326
Fumigation of Snakes	-	63 000
Water Supply through tankers	-	206 102
Other valid deviations	-	153 478
	1 665 225	**1 069 953**

39. Material Losses

The entity suffered significant water loss of 5 106 218 kilolitres (2012: 4 356 964 kilolitres) with a net value of R 28 237 385 (2012: R19 780 617) . The losses can further be broken down between technical and non-technical losses. The technical losses incurred in the current year was 2 067 290 kilolitres (2012: 1 594 758 kilolitres) with net value of R 11 432 113 (2012: R 7 240 200). The non-technical losses incurred in the current year was 3 038 928 kilolitres (2012: 2 762 206 kilolitres) with a net value of R 16 805 272 (2012: R 12 540 417).

Water is supplied to the ODI service delivery area from Rand Water through three bulk supply pipelines by the means of gravity flow . Monthly meter readings of supply are used to monitor the total gross supply and monthly meter readings of water exported to the neighbouring municipalities are used to calculate the net water input into the ODI areas.

Water loss management in the ODI area of supply is monitored, managed and controlled by the implementation of the Water Conservation and Water Demand Management strategies. The primary outcome of these strategies is to reduce:

1. Technical Losses (where not all water supplied reaches the consumer)
2. Financial Losses (where not all water reaching the consumer is measured and paid for)

These losses are caused by:
(a) Real Losses (physical loss of water from the system) and
(b) Apparent Losses (losses due to meter inaccuracies, meter estimations, non-metering of water and unauthorized consumption – this is water reached to the end users but not properly measured, accounted and paid for).

From the above, water losses in the ODI is determined by calculating the amount of Non-Revenue Water (NRW) which is the difference of the volume of water supplied into the system and the billed consumption.

Activities undertaken by the ODI Management involve the continuous investigation into various factors leading to water loss, and the implementation of various initiatives to assist with the reduction of non-revenue water.
The initiatives included the following:

1 Network analysis of existing systems
2 Monitoring and logging of pressures and flows
3 Engineering investigations in problematic areas
4 Pressure management: Installation and setting of PRV’s
5 Domestic and commercial meter audits and meter replacements
6 Active leak detection by locating water leaks using various methods and equipment
7 Continuous meter audits
8 Monitoring the reservoir
9 Monitoring housing developments & Capital projects

Detailed Income statement

Figures in Rand	Note(s)	2013	2012
Revenue			
Sanitation Income		36 431 229	32 960 942
Water Revenue		145 302 042	137 531 437
Other income		4 026 129	614 253
Financial intruments - Fee income		-	1 143 419
Interest Income		24 114 356	21 826 154
Government grants & subsidies	14	134 374 288	102 564 175
Total revenue		**344 248 044**	**296 640 380**
Expenditure			
Personnel	19	(73 559 670)	(72 144 525)
Depreciation and amortisation		(2 258 335)	(2 666 289)
Finance costs		-	(2 199)
Debt impairment	20	(77 303 556)	(82 730 321)
Collection costs		(6 080)	(24 377)
Repairs and maintenance		(9 930 278)	(2 536 999)
Loss on disposal of assets		(252 958)	(2)
General Expenses	17	(183 811 644)	(153 145 266)
Total expenditure		**(347 122 521)**	**(313 249 978)**
Operating deficit	18	**(2 874 477)**	**(16 609 598)**
Deficit for the year		**(2 874 477)**	**(16 609 598)**
Attributable to:			
Owners of the controlling entity		(2 874 477)	(16 609 598)