



EXCELLENCE IN WASTEWATER

**EAST RAND WATER CARE COMPANY (ERWAT) NPC
(REGISTRATION NUMBER 1992/005753/08)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

General Information

Legislation governing the municipal entity's operations	Municipal Finance Management Act (Act 56 of 2003), Municipal Systems Act, Structures Act, National Water Act and the Companies Act (Act No.71 of 2008). The annual financial statements have been audited in compliance with the Companies Act and Municipal Finance Management Act.
Accounting Officer	T Gopane
Chief Finance Officer (CFO)	WI Louw
Directors	CJ Cornish (Chairperson of Board of Directors) LN Bokaba (Non-executive) D Coovadia (Non-executive) T Gopane (Executive) N Koni [Née Sidondi] (Non-executive) TM Mdingi (Non-executive) (Appointment date 16 November 2017) M Mochatsi (Non-executive) EE Themba (Non-executive) K Wall (Non-executive)
Registered office	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
Business address	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
Postal address	P O Box 13106 Norkem Park 1631
Controlling entity	City of Ekurhuleni Metropolitan Municipality incorporated in South Africa
Bankers	ABSA Bank Corporate and Investment Banking 15 Alice Lane Sandton 2196

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

General Information

Auditors

Auditor-General South Africa
61 Central Street, Houghton

Company secretary

Z Socikwa

Company registration number

1992/005753/08

Preparer

The annual financial statements were prepared under the supervision
of: WI Louw (B Compt Hons)
Chief Financial Officer

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Acronyms

AGSA	Auditor-General South Africa
NPC	Non Profit Company
DBSA	Development Bank of South Africa
HOD	Head of Department
GRAP	Generally Recognised Accounting Practice
JIBAR	Johannesburg Interbank Average Rate
INCA	Infrastructure Finance Corporate Limited
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
SCM	Supply Chain Management
MD	Managing Director
CEO	Chief Executive Officer
ERWAT	East Rand Water Care Company
PPE	Property, Plant and Equipment
CoE	City of Ekurhuleni Metropolitan Municipality
CFO	Chief Financial Officer

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

Board's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of ERWAT 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 directors acknowledge that they are 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 directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit 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 ERWAT. While operating risk cannot be fully eliminated, ERWAT endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed ERWAT's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that ERWAT has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the board are primarily responsible for the financial affairs of the entity, they are advised by the entity's internal auditors.

The external auditors are responsible for auditing ERWAT's annual financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented in the Annual Report.

The annual financial statements set out on pages 5 to 69, which have been prepared on a going concern basis, were approved by the board on 30 November 2018 and were signed on its behalf by:


CJ Cornish (Chairperson of Board of Directors)
Non-Executive Director


T Gopane (Accounting Officer)
Managing Director

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

Board's Report

The directors submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

ERWAT is a municipal entity. The principal activity of the entity is the conveyance and treatment of waste water and the provision of related engineering services and products. The operating results and the state of affairs of the Entity are set out in the attached annual financial statements and the annual report.

Net surplus of the entity was R 139 840 346, (2017: surplus R 113 554 030).

2. Going concern

We draw attention to the fact that at 30 June 2018, the entity had accumulated surplus of R 1 602 913 544 and that the entity's total assets exceed its liabilities by R 1 602 913 544.

The existence of ERWAT is dependent on the continued support of City of Ekurhuleni Metropolitan Municipality by way of service charges for treatment of waste water and the provision of related engineering services in terms of a service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.

The annual financial statements has 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.

3. Subsequent events

The directors are not aware of any material matter or circumstance arising since the end of the period.

The calculation of the bad debts provision was calculated based on amounts received from debtors after 30 June 2018. The total amount received subsequent to year end from doubtful debtors amounted to R 487 951, which was used when calculating bad debts provision.

At the meeting of the Board of Directors held on 26 September 2018 a decision was made by the Board of Directors that the bonus for the 2013/14 and 2017/18 financial period will not be paid (Totalling R 8,896,051). This decision taken in the period between the reporting date (30 June 2018) and the authorisation of the financial statements for issue (expected to be approved for issue to the municipal manager on 31 December 2018 and tabled to council on 31 January 2019).

The decision taken on 26 September 2018 provided additional evidence of conditions that existed at year end. The decision taken by the Board of Directors of ERWAT therefore represents an adjusting event after the reporting period. ERWAT have therefore adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

Refer to Note 12 for details regarding the reversal of the bonus provision.

4. Share capital / contributed capital

ERWAT does not have share capital since it was founded as Non-Profit Company.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1392/005753/08)

Annual Financial Statements for the year ended 30 June 2018

Board's Report

5. Company Secretary

The company secretary of the entity is Z Socikwa

Business address

Hartebeestfontein Office Park
R25 (Bapsfontein/Bronkhorstspruit)
Kempton Park
0169

Postal address

PO Box 13106
Norkeim Park
0169

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Assets			
Current Assets			
Trade receivables from exchange transactions	3	70 447 511	38 127 604
Receivables from non-exchange transactions	4	23 491 624	34 707 677
Other receivables from exchange transactions	5	5 140 620	5 181 871
VAT receivable	6	35 498 785	24 056 510
Other financial assets	7	8 420 736	8 119 485
Cash and cash equivalents	8	86 945 000	157 781 702
		229 944 276	267 974 849
Non-Current Assets			
Property, plant and equipment	9	2 100 501 727	1 949 153 517
Intangible assets	10	6 532 811	6 615 575
		2 107 034 538	1 955 769 092
Total Assets		2 336 978 814	2 223 743 941
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	128 613 774	87 373 876
Provisions	12	20 127 482	33 525 323
Current portion of long-term borrowings	13	56 404 629	55 250 765
Current portion of finance lease obligation	14	238 932	238 932
		205 384 817	176 388 896
Non-Current Liabilities			
Non-current portion of long-term borrowings	13	497 440 987	549 753 950
Non-current portion of finance lease obligation	14	119 466	358 398
Employee benefit obligation	15	31 120 000	34 170 000
		528 680 453	584 282 348
Total Liabilities		734 065 270	760 671 244
Net Assets		1 602 913 544	1 463 072 697
Accumulated surplus		1 602 913 544	1 463 072 697

* See Note 35 & 34

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance for the year ended 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Revenue			
Service charges	17	719 935 154	645 216 446
Other income	18	109 478 397	114 955 315
Interest received	19	6 713 655	17 042 742
Dividends received	19	65 985	554 648
Development contribution	20	79 914 197	45 254 939
Government grants & subsidies	21	50 000 000	50 000 000
Total revenue (note 16)		966 107 388	873 024 090
Expenditure			
General Expenses	22	(224 435 235)	(176 761 280)
Employee costs	23	(276 063 797)	(257 358 865)
Debt Impairment	24	(348 104)	(1 274 174)
Depreciation and amortisation	25	(65 880 139)	(64 686 371)
Finance costs	26	(61 249 257)	(66 605 207)
Bulk purchases and materials	27	(203 754 958)	(189 361 598)
Total expenditure		(831 731 490)	(756 047 495)
Operating surplus		134 375 898	116 976 595
Loss on disposal of assets		(1 078 340)	(939 437)
Fair value adjustments - Investments		301 252	(700 128)
Actuarial gains (losses)	15	6 242 036	(1 783 000)
		5 464 948	(3 422 565)
Surplus for the period		139 840 846	113 554 030

* See Note 35 & 34

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets for the year ended 30 June 2018

	Accumulated surplus R	Total net assets R
Balance at 01 July 2016	1 349 518 667	1 349 518 667
Changes in net assets		
Surplus for the year	113 554 030	113 554 030
Total changes	113 554 030	113 554 030
Opening balance as previously reported	1 427 126 881	1 427 126 881
Adjustments		
Prior year adjustments	35 945 817	35 945 817
Balance at 01 July 2017 as restated*	1 463 072 698	1 463 072 698
Changes in net assets		
Surplus for the year	139 840 846	139 840 846
Total changes	139 840 846	139 840 846
Balance at 30 June 2018	1 602 913 544	1 602 913 544

* See Note 35 & 34

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement for the year ended 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Service charges		768 296 624	645 216 446
Development contribution		79 914 197	4 925 802
Grants received		50 000 000	50 000 000
Interest income		6 713 655	17 042 742
Dividends received		55 985	554 648
Other income		34 717 031	156 243 174
		939 707 492	873 982 812
Payments			
Employee costs		(292 511 638)	(245 269 579)
Suppliers		(387 161 341)	(393 902 528)
Finance costs	46	(61 249 257)	(66 350 037)
Other cash item		-	(305 678)
		(740 922 236)	(705 827 822)
Net cash flows from operating activities	28	198 785 256	168 154 990
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(218 898 385)	(282 669 279)
Proceeds from sale of property, plant and equipment	9	1 690 569	99 930
Purchase of other intangible assets	10	(1 016 113)	(4 890 888)
Net cash flows used in Investing activities		(218 223 929)	(287 460 237)
Cash flows from financing activities			
Repayment of long-term borrowings		(51 159 098)	(29 800 834)
Long-term borrowings raised		-	2 093 580
Net finance lease payments		(238 932)	(559 128)
Net cash flows used in financing activities		(51 398 030)	(28 266 382)
Net decrease in cash and cash equivalents		(70 836 703)	(147 571 629)
Cash and cash equivalents at the beginning of the year		157 781 702	305 353 331
Cash and cash equivalents at the end of the year	8	86 944 999	157 781 702

Additions per the cash flow statement for 2017 was previously stated at R283,535,787 but has been restated to R282,669,279 due to prior period errors of R866,508 as detailed in note 34.

* See Note 35 & 34

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

	Original budget	Budget adjustments (l.i.o. s28 and budget s31 of the MFMA)	Final adjustments (l.i.o. s28 and budget s31 of the MFMA)	Shifting of funds (l.i.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2018											
Financial Performance											
Service charges	719 935 000	-	719 935 000	-	-	719 935 000	719 935 154	-	154	100 %	100 %
Investment revenue	4 411 000	-	4 411 000	-	-	4 411 000	6 779 640	-	2 368 640	154 %	154 %
Other own revenue	140 205 256	-	140 205 256	-	-	140 205 256	195 935 882	-	55 730 626	140 %	140 %
Total revenue (excluding capital transfers and contributions)	864 551 256	-	864 551 256	-	-	864 551 256	922 650 676	-	58 099 420	107 %	107 %
Employee costs	(298 040 000)	-	(298 040 000)	-	-	(298 040 000)	(276 063 797)	-	21 976 203	93 %	93 %
Debt impairment	(1 500 000)	-	(1 500 000)	-	-	(1 500 000)	(348 104)	-	1 151 896	23 %	23 %
Depreciation and amortisation	(70 178 000)	-	(70 178 000)	-	-	(70 178 000)	(65 880 139)	-	4 297 861	94 %	94 %
Finance charges	(63 125 000)	-	(63 125 000)	-	-	(63 125 000)	(61 249 257)	-	1 875 743	97 %	97 %
Bulk purchases and materials	(202 296 499)	-	(202 296 499)	-	-	(202 296 499)	(203 754 958)	-	(1 458 459)	101 %	101 %
Other expenditure	(229 411 757)	-	(229 411 757)	-	-	(229 411 757)	(225 513 575)	-	3 898 182	98 %	98 %
Total expenditure	(864 551 256)	-	(864 551 256)	-	-	(864 551 256)	(832 809 830)	-	31 741 426	96 %	96 %
Surplus							89 840 846		89 840 846		
Transfers recognised - capital	50 000 000	-	50 000 000	-	-	50 000 000	50 000 000	-	-	100 %	100 %
Surplus after capital transfers and contributions	50 000 000	-	50 000 000	-	-	50 000 000	139 840 846	-	89 840 846	280 %	280 %
Surplus for the year	50 000 000	-	50 000 000	-	-	50 000 000	139 840 846	-	89 840 846	280 %	280 %

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(Registration number 1992/005753/08)
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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Capital expenditure and funds sources											
Total capital expenditure	309 259 071	-	309 259 071	-	-	309 259 071	219 914 498	-	(89 344 573)	71 %	71 %
Sources of capital funds											
Transfers recognised - capital	50 000 000	-	50 000 000	-	-	50 000 000	50 000 000	-	-	100 %	100 %
Internally generated funds	259 259 071	-	259 259 071	-	-	259 259 071	169 914 498	-	(89 344 573)	66 %	66 %
Total sources of capital funds	309 259 071	-	309 259 071	-	-	309 259 071	219 914 498	-	(89 344 573)	71 %	71 %
Cash flows											
Net cash from operating	123 673 693	-	123 673 693	-	-	123 673 693	198 785 256	-	75 111 563	161 %	161 %
Net cash used in investing	(336 206 441)	-	(336 206 441)	-	-	(336 206 441)	(218 223 929)	-	117 982 512	65 %	65 %
Net cash used in financing	(29 576 941)	-	(29 576 941)	-	-	(29 576 941)	(51 398 030)	-	(21 821 089)	174 %	174 %
Net decrease in cash and cash equivalents	(242 109 689)	-	(242 109 689)	-	-	(242 109 689)	(70 836 703)	-	171 272 986	29 %	29 %
Cash and cash equivalents at the beginning of the year	305 353 331	-	305 353 331	-	-	305 353 331	157 781 702	-	(147 571 629)	52 %	52 %
Cash and cash equivalents at year end	63 243 642	-	63 243 642	-	-	63 243 642	86 944 999	-	(23 701 357)	137 %	137 %

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments and budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
R	R	R	R	R	R	R	R	R	R	R

The budget is approved on an accrual basis by nature of classification. The approved budget covers the period from 01 July 2017 to 30 June 2018.

The budget and accounting basis are the same: both are on the accrual basis. The financial statements are prepared using a classification on the nature of expenses in the statement of financial performance.

The variances between actual amounts versus budgeted amounts are explained in note 44 Budget differences.

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of WIFMA	Balance to be recovered	Restated audited outcome
	R	R	R	R
2017				
Financial Performance				
Service charges				645 216 446
Investment revenue				17 597 390
Other own revenue				160 210 254
Total revenue (excluding capital transfers and contributions)				823 024 090
Employee costs			(257 358 865)	
Debt impairment			(1 274 174)	
Depreciation and asset impairment			(64 686 371)	
Finance charges			(66 605 207)	
Bulk purchases and materials			(189 361 598)	
Other expenditure			(180 183 845)	
Total expenditure			(759 470 060)	
Surplus				63 554 030
Transfers recognised - capital				50 000 000
Surplus after capital transfers and contributions				113 554 030
Surplus for the year				113 554 030

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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be Restated recovered	Balance to be Restated audited outcome
	R	R	R	R
Capital expenditure and funds sources				
Total capital expenditure				288 426 675
Sources of capital funds				50 000 000
Transfers recognised - capital				2 093 580
Borrowing				236 333 095
Internally generated funds				
Total sources of capital funds				288 426 675
Cash flows				
Net cash from operating				168 154 990
Net cash used in investing				(287 460 237)
Net cash used in financing				(28 266 382)
Net increase/(decrease) in cash and cash equivalents				(147 571 629)
Cash and cash equivalents at the beginning of the year				305 353 331
Cash and cash equivalents at year end				157 781 702

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(Registration number 1992/005753/08)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

These annual financial statements were prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and related directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Significant judgments and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Financial assets carried at cost, amortised cost, and fair value

ERWAT assesses its financial assets carried at cost, amortised cost and fair value for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment of Receivables

The impairment for trade receivables, held to maturity investments, loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change, which may then impact estimations and may then require material adjustments to the carrying value of receivables.

Impairment of other financial assets

ERWAT follows the guidance of GRAP 104 to determine when other financial assets are impaired. This determination requires significant judgment. In making this judgment, ERWAT evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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Accounting Policies

Operating lease commitments - entity as lessor or lessee

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

Finance lease commitments - entity as a lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of lease property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Any contingent rents are expensed in the period in which they are incurred.

Post-employment benefits

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subjects to significant uncertainty.

Impairment of property, plant and equipment

The calculation in respect of impairment of plant, property and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an across all classes of plant, property and equipment

Estimates and assumptions are applied in determining certain inputs to the impairment of property, plant and equipment, including the remaining useful economic life of assets by the entity.

Provisions, contingent liabilities and contingent assets

Management's judgment is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the note relating to - Provisions.

Useful lives of plant, property and equipment held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets is also based on management's judgment on whether the assets will be sold or used to the end of their useful lives, and an assessment of their likely condition at that time.

Budget Information

Budget information is inherently uncertain due to its forward-looking nature. Budgeted amounts are determined on the basis of past experience, as well as other specific information that might apply, including the existence of contracts that are already in effect. A comparison between the budget and actual outcomes is presented in the statement of comparison of budget and actual amounts. (Appropriation statement.)

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

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Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by ERWAT is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. ERWAT uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to ERWAT for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

ERWAT reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

1.2 Presentation and functional currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 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 or the fair value of the item can be measured reliably.

Property, plant and equipment are 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. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. 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.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets were measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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1.3 Property, plant and equipment (continued)

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation recognised on property, plant and equipment is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation starts when the asset is available for use. Work in progress is not depreciated. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets.

The depreciation rates are based on the following estimated useful lives:

Item	Estimated useful life (Range in Years)
Land & buildings	
• Land	Indefinite
• Buildings	14 - 80
Infrastructure	
• Waste Water Purification Works	03 - 82
• Electrical components	14 - 68
• Mechanical components	02 - 68
• Perimeter protection	08 - 80
• Roads	25 - 68
• Leased plant	15 - 55
Furniture and fixtures	
• Furniture and fittings	05 - 80
• IT equipment	04 - 23
• Office equipment	05 - 41
• Leased equipment	03 - 04
Motor vehicles	06 - 34
Plant and machinery	05 - 30

Work in progress represents capital expenditure incurred on projects/assets under construction, not yet completed or not yet available for use at period end. Work in progress is not depreciated.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an asset's carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the asset's recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. 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 sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Amortisation recognised on intangible assets is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, and expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Estimated Useful life (Range in Years)
Computer software	05 - 23

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.5 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is, cash; a residual interest of another entity; or a contractual right to (i) received cash or another financial asset from another entity; (ii) exchange financial assets or financial liabilities with another entity that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- (i) the entity designates at fair value at initial recognition or
- (ii) are held for trading.

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1.5 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

c) Financial instruments at fair value comprise financial assets or financial liabilities that are:

- (i) derivatives;
- (ii) combined instruments that are designated at fair value;
- (iii) instruments held for trading. A financial instrument is held for trading if:
 - (1) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - (2) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- (iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- (v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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
Trade debtors from exchange and non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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
Long-term borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	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.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.5 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 fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or 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 assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

a) 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.

b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

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

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1.5 Financial instruments (continued)

b) 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 (when the obligation specified in the contract is discharged, cancelled, expires or waived).

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.

Dividends or similar distributions 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 are 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.

1.6 Employment 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 bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Retirement funds

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

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Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

The entity does not apply "defined benefit accounting" to the defined benefit funds to which it is a member, where these funds as classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit exists, based on available information, and which may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

The entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the entity is associated, a member (subject to the applicable conditions of service) on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the entity for the remaining portion.

1.7 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and 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 amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

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 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.

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.

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

a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

b) Incentive bonus provision

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors if they are satisfied with ERWAT's performance at the end of the financial year.

1.8 Impairment of cash-generating assets and non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. 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).

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists the entity estimates the recoverable amount or the recoverable service amount of the asset.

Factors that are taken into account in identifying whether an asset is impaired include external sources of information such as the technological, legal or regulatory context in which the asset is used, as well as internal sources of information such as evidence of physical damage of the asset, and significant long-term changes with an adverse effect on the entity that have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.

Irrespective of whether there is any indication of impairment, the entity also assesses an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable or 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 a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

When estimating the value in use of a cash-generating asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating asset is determined using the most appropriate of the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

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

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable 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 cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the 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 cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

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1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised when the municipality's right to receive payment is established.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- 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 municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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 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.

Transfers, including Grants and Receipts

The entity recognises an asset in respect of transfers when the transferred resources meets the definition of an asset and satisfies the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

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1.10 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the entity recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity discloses the nature and type of services in-kind received during the reporting period.

1.11 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 land and buildings elements, the entity assesses the classification of each element separately.

Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any contingent rents are expensed in the period in which they are incurred.

1.12 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. All borrowing costs are recognised as an expense in the period in which they are incurred.

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Accounting Policies

1.13 Income Tax

The Entity is exempt from tax due to it being a Non-Profit Company.

1.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Fruitless and wasteful expenditure

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

1.16 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 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.

1.17 Budget information

The approved budget is prepared in accordance with legislative requirements on an accrual basis, and is consistent with accounting policies as adopted by the Council for the preparation of these financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.18 Related parties

The disclosure of related parties is carried out on the basis of IPSAS 20 Related Party Disclosure, in terms of Directive 5 ("Determining the GRAP Reporting Framework") issued by the Accounting Standards Board.

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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 person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

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Accounting Policies

1.19 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date, the information is disclosed in the financial statements.

1.20 Commitments

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in outflow of cash.

The entity discloses commitments for each class of capital assets (PPE and Intangible assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

1.21 Going concern

These annual financial statements have been prepared on a going concern basis.

1.22 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.23 Change in accounting estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

The effect of a change in an accounting estimate, other than to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, is recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it is recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change.

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Accounting Policies

Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit or the surplus or deficit of both the current period and future periods. However, a change in the estimated useful life of or the expected pattern of consumption of economic benefits or service potential embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

1.24 Prior period error

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

The entity corrects material prior period errors retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity restates the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity restates the comparative information to correct the error prospectively from the earliest date practicable.

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Notes to the Annual Financial Statements

	2018	2017
	R	Restated* R

2. New standards and interpretations

2.1 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 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
◦ IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
◦ Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	Not yet set	Unlikely there will be a material impact
◦ GRAP 34: Separate Financial Statements	Not yet set	Unlikely there will be a material impact
◦ GRAP 35: Consolidated Financial Statements	Not yet set	Unlikely there will be a material impact
◦ GRAP 36: Investments in Associates and Joint Ventures	Not yet set	Unlikely there will be a material impact
◦ GRAP 37: Joint Arrangements	Not yet set	Unlikely there will be a material impact
◦ GRAP 38: Disclosure of Interests in Other Entities	Not yet set	Unlikely there will be a material impact
◦ GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
◦ GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
◦ GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
◦ GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
◦ GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2018	Unlikely there will be a material impact
◦ IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
◦ Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Not applicable to entity
◦ GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
◦ GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
◦ GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
◦ GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
◦ GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact
◦ GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
◦ GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
◦ IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
◦ GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
◦ GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

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2. New standards and interpretations (continued)		
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact
3. Trade receivables from exchange transactions		
Gross trade receivables from exchange transactions		
Commercial business receivables	20 563 085	23 741 628
Related party debtors	54 455 806	18 609 252
	75 018 891	42 350 880
Less: Allowance for impairment		
Commercial business - Provision for bad debts	(4 571 380)	(4 223 276)
Net balance		
Commercial business receivables	15 991 705	19 518 352
Related party debtors	54 455 806	18 609 252
	70 447 511	38 127 604
Ageing of Commercial business - Trade receivables from exchange transactions		
Current (0 -30 days)	6 246 891	5 814 434
31 - 60 days	2 304 088	2 544 633
61 - 90 days	1 082 189	3 595 582
91 - 120+ days	10 929 917	11 786 979
Less: Allowance for impairment	(4 571 380)	(4 223 276)
	15 991 705	19 518 352
Ageing of related party - Trade receivables from exchange transactions		
Current (0 -30 days)	1 896 687	1 878 709
31 - 60 days	834 733	523 932
61 - 90 days	18 224 971	-
91 - 120+ days	33 499 415	16 206 611
	54 455 806	18 609 252
Total		
Current (0 -30 days)	8 143 578	7 693 143
31 - 60 days	3 138 821	3 068 565
61 - 90 days	19 307 160	3 595 582
91 - 120+ days	44 429 332	27 993 590
	75 018 891	42 350 880
Less: Allowance for impairment	(4 571 380)	(4 223 276)
	70 447 511	38 127 604
Less: Allowance for impairment		
61 - 90 days	-	(2 420)
91 - 120+ days	(4 571 380)	(4 220 856)
	(4 571 380)	(4 223 276)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(4 223 276)	(2 949 102)
Contributions to the Debt Impairment Allowance (Credit Losses)	(348 104)	(1 274 174)
	(4 571 380)	(4 223 276)

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Notes to the Annual Financial Statements

	2018 R	2017 R
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3. Trade receivables from exchange transactions (continued)

Trade receivables past due but not impaired

Trade receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 61 815 983 (2017: R 32 782 114) were past due but not impaired.

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

1 month past due	3 138 821	2 896 469
2 months past due	19 307 160	2 202 073
3 months past due	39 370 002	27 683 572

Receivables from exchange transactions encumbered

Receivables with a carry value of R 70 447 511 (2017: R 38 127 604) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R 550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd and guarantee for the loan remains in effect.

4. Receivables from non-exchange transactions

Government grants and subsidies	23 491 624	34 707 677
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Ageing of Receivables from non-exchange transactions

Current (0-30 days)	-	9 129 275
31 - 60 days	-	1 012 829
61 - 90 days	-	683 438
91 - 120+ days	23 491 624	23 882 135
	23 491 624	34 707 677

Receivables from non-exchange transactions encumbered

Receivables with a carry value of R 23 491 624 (2017: R 80 482 426) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R 550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd and guarantee for the loan remains in effect.

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	2018 R	2017 R		
4. Receivables from non-exchange transactions (continued)				
Receivables from non-exchange transactions past due but not impaired				
Management does not consider any receivables from non-exchange transactions to be impaired, regardless of their age, as they relate solely to transactions with CoE which is the controlling entity of ERWAT. In addition, past experience has shown that all receivables from the controlling entity are recoverable. The disclosure below is included only in order to comply with the standards of GRAP.				
Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 23 491 624 (2017: R 71 489 745) were past due but not impaired.				
The ageing of amounts past due but not impaired is as follows:				
1 month past due		52 410 069		
2 months past due		1 012 829		
3 months past due	23 491 624	18 066 847		
5. Other receivables from exchange transactions				
Deposits	3 439 791	3 235 843		
Prepaid expenses	1 700 829	1 938 997		
Medical aid	-	7 031		
	5 140 620	5 181 871		
6. VAT receivable				
VAT	35 498 785	24 056 510		
7. Other financial assets				
Name of entity	Carrying amount 2018	Carrying amount 2017	Fair value 2018	Fair value 2017
Sanlam demutualisation shares	1 244 898	1 011 528	1 244 898	1 011 528
Old Mutual demutualisation shares	1 062 590	1 274 019	1 062 590	1 274 019
Old mutual unit trust	6 113 248	5 833 938	6 113 248	5 833 938
	8 420 736	8 119 485	8 420 736	8 119 485
Fair value				
The fair values of listed or quoted investments are determined annually and are based on the quoted market price. A quoted market price is a Level 1 input in terms of GRAP 104.120.				
8. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand			23 400	21 200
Bank balances			85 354 252	157 760 502
Interest accrued not yet received from the bank			1 567 348	-
			86 945 000	157 781 702

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Notes to the Annual Financial Statements

	2018			2017		
	R			R		
8. Irregular expenditure (continued)						
The entity has the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK - Current account - 2-6017-0120	58 941 557	157 714 415	302 802 058	60 508 905	157 367 173	302 801 808
ABSA BANK - Salary account - 2-6017-0139	26 412 695	393 329	2 531 423	26 412 695	393 329	2 531 423
Petty cash and floats	-	-	-	23 400	21 200	20 100
Total	85 354 252	158 107 744	305 333 481	86 945 000	157 781 702	305 353 331

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	2018		2017		2018	2017
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 017 283	-	13 017 283	13 017 283	-	13 017 283
Buildings	37 885 191	(6 315 393)	31 569 798	35 982 178	(5 372 822)	30 609 356
Buildings - Assets under construction	19 030 693	-	19 030 693	12 473 728	-	12 473 728
Plant and machinery	46 582 119	(16 631 556)	29 950 563	33 125 628	(14 845 816)	18 279 810
Furniture and fixtures, office and computer equipment	29 100 707	(10 064 469)	19 036 238	23 492 467	(8 863 230)	14 629 237
Motor vehicles	54 823 656	(16 010 421)	38 813 235	53 188 497	(12 579 191)	40 609 306
Infrastructure, Waste water purification works - Assets under construction	952 960 307	-	952 960 307	816 654 356	-	816 654 356
Infrastructure, Waste water purification works	1 395 898 200	(400 845 978)	995 052 222	1 351 295 613	(349 015 805)	1 002 279 808
Plant and machinery - Assets under construction	710 975	-	710 975	-	-	-
Leased assets	1 247 550	(887 137)	360 413	1 248 350	(647 717)	600 633
Total	2 551 256 681	(450 754 954)	2 100 501 727	2 340 478 100	(391 324 583)	1 949 153 517

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Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	13 017 283	-	-	-	-	13 017 283
Land and buildings	30 609 356	1 903 014	-	-	(942 572)	31 569 798
Land and buildings - Assets under construction	12 473 728	6 556 965	-	-	-	19 030 693
Plant and machinery	18 279 810	14 131 901	(73 442)	-	(2 387 704)	29 950 565
Furniture and fixtures, office and computer equipment	14 629 235	7 199 869	(269 658)	-	(2 523 208)	19 036 238
Motor vehicles	40 609 306	1 674 461	(2 563)	-	(3 467 969)	38 813 235
Infrastructure, Waste water purification works	1 002 279 810	15 308 973	(2 423 244)	35 106 276	(55 219 590)	995 052 225
Infrastructure, Waste water purification works - Assets under construction	816 654 356	171 412 227	-	(35 106 276)	-	952 960 307
Furniture and fixtures, office and computer equipment - Assets under construction	-	710 975	-	-	(240 219)	710 975
Leased assets	600 633	-	-	-	-	360 414
	1 949 153 517	218 898 385	(2 768 907)	-	(64 781 262)	2 100 501 733

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Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued) Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Prior period errors (Note 35)	Depreciation	Total
Land	44 155 843	385 663	-	-	13 017 283	-	13 017 283
Land and buildings	4 491 714	7 023 452	-	-	(13 017 283)	(914 867)	30 609 356
Land and buildings - Assets under construction	17 913 046	2 309 885	(10 553)	-	958 562	-	12 473 728
Plant and machinery	14 572 390	2 270 399	(120 757)	-	221 978	(2 154 546)	18 279 810
Furniture and fixtures, office and computer equipment	6 404	-	-	-	72 450	(2 165 247)	14 629 235
Furniture and fixtures, office and computer equipment - Assets under construction	30 984 578	11 702 040	(371 685)	-	(6 404)	-	40 609 306
Motor vehicles	837 025 631	165 245 018	(536 372)	221 520 036	1 291 466	(2 977 093)	40 609 306
Infrastructure, Waste water purification works	781 627 484	94 599 330	-	(221 520 036)	(165 582 110)	(55 392 393)	1 002 279 810
Infrastructure, Waste water purification works - Assets under construction	905 527	-	-	-	161 947 578	-	816 654 356
Leased assets	-	-	-	-	118 307	(423 201)	600 633
	1 731 662 617	283 535 787	(1 039 367)	-	(978 173)	(64 027 347)	1 949 153 517

Depreciation per the income statement for 2017 was previously stated at R64 027 347 but has been restated to R64 032 536 due to prior period errors of R5 189 as detailed in note 34.

Reconciliation of Work In Progress 2018

	Included within Infrastructure	Included within Land and buildings	Included within Furniture and fixtures, office and computer equipment	Total
Opening balance	816 654 356	12 473 728	-	829 128 084
Additions/capital expenditure	171 412 227	6 556 965	710 975	178 680 167
Transferred to completed items	(35 106 276)	-	-	(35 106 276)
	952 960 307	19 030 693	710 975	972 701 975

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Notes to the Annual Financial Statements

	2018 R	2017 R
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9. Property, plant and equipment (continued)

Reconciliation of Work In Progress 2017

	Included within infrastructure	Included within Land and buildings	Included within Furniture and fixtures, office and computer equipment	Total
Opening balance	781 627 484	4 491 714	6 404	786 125 602
Additions/capital expenditure	94 599 330	7 023 452	-	101 622 782
Transfers	(221 520 036)	-	-	(221 520 036)
Prior year adjustments	161 947 578	958 562	(6 404)	162 899 736
	816 654 356	12 473 728	-	829 128 084

Leased assets:	Cost	Accumulated Depreciation	Net book value
Benoni	437 677	(424 378)	13 299
Dekema	168 150	(55 915)	112 235
H. Bickley	87 719	(28 301)	59 418
Rondebult	2 000 530	(846 844)	1 153 686
Rynfield	654 554	(159 596)	494 958
	3 348 630	(1 515 034)	1 833 596

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

Employee related costs	34 050 297	29 053 520
Contracted services	124 674 221	98 674 931
General expenses	7 962 109	1 531 395
	166 686 627	129 259 846

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

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Notes to the Annual Financial Statements

	2018 R	2017 R
11. Payables from exchange transactions		
Trade payables	109 612 637	71 369 380
Payments received in advance - contracts in progress	-	773 688
Deposits	11 780	11 780
Accrued bonus	3 955 357	5 192 918
Accrued overtime	2 191 780	2 092 582
Payroll creditors	4 120 384	73 493
Related party payables	4 487 909	6 783 835
Retention	970 097	968 634
Debtors with credit balances	251 675	57 449
Other payables	3 655	5 545
Unidentified deposits	8 500	44 572
	128 613 774	87 373 876

12. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Incentive bonus provision	17 201 507	-	-	(17 201 507)	-
Leave pay provision	16 323 816	11 764 446	(7 960 780)	-	20 127 482
	33 525 323	11 764 446	(7 960 780)	(17 201 507)	20 127 482

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Incentive bonus provision	12 458 099	4 743 408	-	17 201 507
Leave pay provision	11 960 938	9 517 587	(5 154 709)	16 323 816
	24 419 037	14 260 995	(5 154 709)	33 525 323

Incentive bonus provision

A provision for incentive bonuses is estimated at year end. The incentive bonus will be paid out if the Board of Directors and the controlling entity are satisfied with ERWAT's performance. The amount will be determined by the Board in terms of ERWAT's policy and the date of payment will only be when the board approves the incentive bonuses.

An amount of R 8,896,041 included in the reversal of R17 201 507 (2018) was only reversed subsequent to year end, refer to Note 46 in this regard..

Leave pay provision

The liability is based on the total accrued leave days at year end. The payment of the leave and the amount are uncertain as employees take their leave at different stages during the year or may choose to encash the leave days accumulated.

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	2018 R	2017 R
13. Long term borrowings		
At amortised cost		
Bank loan - Nedbank (Secured) Six monthly Jibar plus 2.32% currently @ 2018: 10.028% (2017: 10.278%) Redeemable 30/11/2029 The loan is repayable in bi-annual instalments with a capital repayment amount R21,153,846	490 435 435	533 281 072
Bank loan - INCA (Unsecured) INCA @ 2018: 8.25% (2017: 8.25%) Redeemable 28/06/2024 The loan is repayable in bi-annual instalments, the last repayment amount for the 2018 financial year was R5,233,470 and the next repayment amount due is R5,249,417.	54 103 962	59 777 571
Bank loans - DBSA (Unsecured) DBSA - Loan 61001191 - R1,802,774 Fixed rate of 15% @ 2018: (2017: 15%) Redeemable 30/09/2020 The loan is repayable in fixed bi-annual instalments of R429,696	9 306 220	11 946 072
DBSA - Loan 61001192 - R7,568,948 Three monthly Jibar plus 2.22% currently @ 2018: 10.54% (2017: 10.12%) Redeemable 30/09/2020 The loan is repayable in quarterly instalments with a capital repayment amount of R737,425.		
	553 845 617	605 004 715
Total long term borrowings	553 845 617	605 004 715
Refer to note 3 and 4 for information relating to debtors ceded against the Nedbank loan.		
Non-current liabilities		
At amortised cost	497 440 987	549 753 950
Current liabilities		
At amortised cost	56 404 629	55 250 765

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	2018 R	2017 R
14. Financial lease obligation		
Non-current liabilities		
Finance lease obligation	119 466	358 398
Current liabilities		
Finance lease obligation	238 932	238 932
Minimum lease payments due		
- within one year	238 932	238 932
- in second to fifth year inclusive	119 466	358 398
Present value of minimum lease payments	358 398	597 330
Non-current liabilities	119 466	358 398
Current liabilities	238 932	238 932
	358 398	597 330

Finance Leases:

The finance lease relates to the renting of the access control system, electric fencing and CCTV equipment.

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value	2017/18	2016/17	2015/16	2014/15	2013/14
Opening balance	34 170 000	29 404 000	27 978 000	22 240 000	16 087 801
Benefit paid	(1 445 964)	(1 087 000)	(970 000)	(794 000)	(550 000)
Net (income)/expense recognised in the statement of financial performance	(1 604 036)	5 853 000	2 396 000	6 532 000	6 702 199
	31 120 000	34 170 000	29 404 000	27 978 000	22 240 000

The obligation is due to a post-retirement medical aid benefit offered by ERWAT. In the event that a medical aid contributing employee retires, ERWAT will continue to pay 66% of the medical aid contribution provided that the requirements of the policy are met by the employee.

The entity does not have any specific assets set aside to prefund for this liability, therefore no asset value is included in the valuation.

Net Income (expense) recognised in the statement of financial performance

Carrying value	2017/18	2016/17	2015/16	2014/15	2013/14
Current service cost	(1 238 000)	(1 081 000)	(974 000)	(766 000)	(1 309 000)
Interest cost	(3 400 000)	(2 989 000)	(2 494 000)	(2 091 000)	(1 901 000)
Actuarial gains/(losses)	6 242 036	(1 783 000)	1 072 000	(3 675 000)	(3 492 199)
	1 604 036	(5 853 000)	(2 396 000)	(6 532 000)	(6 702 199)

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	2018 R	2017 R
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15. Employee benefit obligations (continued)

Key assumptions used

An actuarial valuation has been performed by ARCH Actuarial Consulting CC as at 30 June 2018. Actuarial valuations were performed by iAC independent actuaries and consultants as at 30 June 2017, 30 June 2016 and 30 June 2015. Price Waterhouse Coopers performed the actuarial valuations as at 30 June 2014.

The key financial assumptions are as follows:

	2017/18	2016/17	2015/16	2014/15	2013/14
Discount rates used	9,52 %	9,98	10,16 %	8,91 %	9,40 %
Medical cost inflation rates	7,33 %	8,89 %	9,58 %	8,42 %	9,00 %
Proportion of retiring members who are married	90,00 %	90,00 %	90,00 %	90,00 %	90,00 %
Average retirement age	63 years	63 years	63 years	63 years	63 years
Number of children under the age of 21	-	-	-	-	-

The discount rate of 9,52% was set with reference to the market yield on government bonds, by using the weighted average duration of the liability i.e. 16.94 years and the corresponding interest yield rate of 9,52%.

Other assumptions

The assumed discount rate had a significant effect on the amounts recognised in surplus or deficit. A one (1%) percentage point change in the assumed discount rate would have the following effects:

	One percentage point increase	One percentage point decrease
Defined benefit obligation at start of period (ended 30 June 2018)		
Service costs	(27 362 000)	(35 821 000)
Interest cost	(981 000)	(1 589 000)
	(3 241 000)	(3 577 000)
	2018	2017
Defined benefit obligation	32 120 000	34 170 000
Surplus (deficit)	6 242 036	(1 783 000)
Experience adjustments on plan liabilities	2 754 000	(4 484 000)
	2016	2015
	29 404 000	27 978 000
	1 072 000	(3 675 000)
	680 000	(11 690 000)
	2014	2013
	22 240 000	(3 492 199)
	(10 765 000)	-

16. Revenue

Service charges	719 935 154	645 216 446
Other income	109 478 397	114 955 315
Interest received - investment	6 713 655	17 042 742
Dividends received	65 985	554 648
Development contribution	79 914 197	45 254 939
Government grants & subsidies	50 000 000	50 000 000
	966 107 388	873 024 090

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	719 935 154	645 216 446
Other income	109 478 397	114 955 315
Interest received - investment	6 713 655	17 042 742
Dividends received	65 985	554 648
	836 193 191	777 769 151

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	2018 R	2017 R
16. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Development contribution	79 914 197	45 254 939
Government grants & subsidies	50 000 000	50 000 000
	129 914 197	95 254 939
17. Service charges		
Sewerage and sanitation charges	719 935 154	645 216 446
18. Other income		
Discount received	21 520	20 590
Other income from commercial business	107 315 083	112 935 473
Learnership income	1 658 871	1 624 002
Tender income	482 923	375 250
	109 478 397	114 955 315
Included in the income from commercial business is income received from housing and leasing, commercial business, laboratory, operations and technical.		
19. Investment revenue		
Dividend revenue		
Unit trusts - Local	65 985	554 648
Interest revenue		
Interest received: Bank	6 512 417	16 311 677
Interest received: Deposits	194 238	731 065
	6 713 655	17 042 742
	6 779 640	17 597 390
20. Development contributions		
Development contributions	79 914 197	45 254 939
21. Government grants & subsidies		
	50 000 000	50 000 000

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	2018 R	2017 R
22. General expenses		
Advertising	655 286	593 631
Assessment rates & municipal charges	1 514 069	2 193 401
Auditors remuneration	1 579 678	1 362 338
Bank charges	426 560	343 246
Computer expenses	1 983 981	1 670 794
Conferences and seminars	2 225 145	1 101 331
Consulting and professional fees	16 765 873	16 844 012
Donations	81 400	230 872
Entertainment	2 788 909	1 719 581
Flowers	94 791	34 327
Health, safety and protective clothing	6 728 301	2 019 169
Fuel and other fleet costs	11 298 488	10 489 846
Insurance	4 194 112	3 926 047
Laboratory charges	3 757 017	4 795 201
Lease rental	1 126 316	941 496
Marketing and public relations	1 713 716	1 376 527
Staff recruitment fees	1 862 170	1 840 913
Printing and stationery	1 446 343	961 524
Rental of equipment	1 124 195	1 705 996
Research and development costs	652 728	673 335
Repair and maintenance	124 674 221	98 674 931
Security	20 189 529	11 544 326
Sewerage and waste disposal	20 772	37 215
Subscriptions and membership fees	735 766	297 641
Telephone and fax	2 170 581	2 115 365
Training	3 524 732	2 924 863
Transport and freight	5 339 729	3 047 774
Travel	5 760 822	3 295 778
	224 435 235	176 761 280

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	2018 R	2017 R
23. Employee costs		
Basic	174 765 180	152 470 264
Bonus	13 648 634	11 133 038
Bursary schemes	94 326	93 447
Car allowance	5 495 058	5 393 955
Cell phone and data card allowances	3 682 139	526 835
Company contributions	49 116 330	45 491 871
Housing benefits and allowances	1 961 652	1 508 253
Leave pay provision charge	11 764 446	9 517 587
Long service awards	552 098	297 069
Long-term benefits - incentive scheme	(17 201 507)	4 743 408
Overtime payments	25 573 961	19 814 086
Other short term costs	353 270	244 480
Post retirement - medical loss/(gain)	1 238 000	1 081 000
Remuneration of non-executive directors	2 713 715	2 709 737
Sanlam disability fund	596 263	559 432
Workmen's compensation	1 710 232	1 774 403
	276 063 797	257 358 865

Remuneration of the Chief Executive Officer/Managing Director

Annual Remuneration	1 505 440	1 377 288
Travel Allowance	-	24 000
Contributions to UIF, Medical and Pension Funds	262 340	247 044
Telephone and data card allowance	52 800	50 378
Long service award	-	22 931
Bonuses and performance related payments	125 008	-
	1 945 588	1 721 641

The remuneration of the Chief Executive Officer is included in the employee related costs. Please refer to the note on Directors and executive emoluments for more detailed breakdown of the Chief Executive Officer.

Please refer to note 43 for the details of remuneration of the managers and directors.

Remuneration of Chief Finance Officer

Annual Remuneration	1 049 431	1 063 272
Travel Allowance	102 000	102 000
Contributions to UIF, Medical and Pension Funds	341 111	317 076
Cell phone and data card allowance	40 800	40 800
Long service award	-	32 560
Bonuses and performance related payments	87 312	-
Total	1 620 654	1 555 708

The remuneration of the Chief Financial Officer is included in the employee related costs. Please refer to the note on Directors and executive managers emoluments for more detailed breakdown of the Chief Finance Officer.

Please refer to note 43 for the details of remuneration of directors and executive managers.

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	2018 R	2017 R
23. Employee costs (continued)		
Remuneration of Executive Managers excluding Chief Financial Officer		
Annual Remuneration	6 732 745	6 288 387
Travel allowance	550 000	487 000
Contributions to UIF, Medical and Pension Funds	1 667 278	1 466 488
Cell phone and data card allowance	292 400	235 800
Bonuses and performance related payments	542 371	-
	9 784 794	8 477 675
Remuneration of Non-Executive Directors		
Annual Remuneration	2 556 533	2 479 861
Travel Allowance	9 982	77 876
Cell phone and data card allowance	147 200	152 000
	2 713 715	2 709 737
In-kind benefits		
All ERWAT directors have the use of a company owned laptop and 3G card. The directors salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.		
24. Debt impairment		
Reversal of impairment allowance	(4 223 276)	(2 949 102)
Contributions to the Debt Impairment Allowance (Credit Losses)	4 571 380	4 223 276
	348 104	1 274 174
Refer to note 3.		
25. Depreciation and amortisation		
Property, plant and equipment	64 796 606	64 032 536
Intangible assets	1 098 877	653 835
	65 895 483	64 686 371
Refer to note 9 and 10.		
26. Finance costs		
Interest on long-term borrowings	57 752 189	63 361 037
Finance leases	97 068	255 170
Unwinding of discount - Employee benefit obligation	3 400 000	2 989 000
	61 249 257	66 605 207
27. Bulk purchases and materials		
Electricity	119 047 524	125 658 849
Water	4 977 590	2 352 204
Sewer purification	79 729 844	61 350 545
	203 754 958	189 361 598

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	2018 R	2017 R
28. Cash generated from operations		
Surplus	139 840 846	113 554 030
Adjustments for:		
Depreciation and amortisation	65 880 139	64 686 371
Loss on sale of assets	1 078 340	939 437
Actuarial gains/(losses)	(6 242 036)	1 783 000
Fair value adjustments	(301 252)	700 128
Finance costs - Finance leases	-	255 170
Debt impairment	348 104	1 274 174
Movements in retirement benefit liability	3 192 036	2 983 019
Movements in provisions	(13 397 843)	9 106 282
Changes in working capital:		
Other receivables from exchange transactions	(32 319 907)	38 101 600
Other receivables from non-exchange transactions	11 216 053	(34 707 677)
Other financial assets	-	394 450
Debt impairment	(348 104)	(1 274 174)
Movement in other financial assets due to fair value adjustments	-	(700 128)
Payables from exchange transactions	41 281 155	(27 779 666)
VAT	(11 442 275)	(1 161 026)
	199 785 256	133 154 990
29. Auditors' remuneration		
Fees	1 579 678	1 362 338

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	2018 R	2017 R	
30. Financial instruments disclosure			
Categories of financial instruments			
2018			
Financial assets			
	At fair value	At amortised cost	Total
Other financial assets	8 420 736	-	8 420 736
Trade receivables from exchange & receivables from non-exchange transactions	-	93 939 135	93 939 135
Other receivables from exchange transactions*	-	3 439 791	3 439 791
Cash and cash equivalents	-	86 945 000	86 945 000
	8 420 736	184 323 926	192 744 662
Financial liabilities			
		At amortised cost	Total
Payables from exchange transactions**		128 613 774	128 613 774
Long-term borrowings - Current portion		56 404 629	56 404 629
Long-term borrowings - Non-current portion		497 440 987	497 440 987
Finance lease - Current portion		238 932	238 932
Finance lease - Non-current portion		119 466	119 466
		682 817 788	682 817 788
* - excluding prepayments			
** - excluding payments received in advance			
2017			
Financial assets			
	At fair value	At amortised cost	Total
Other financial assets	8 119 485	-	8 119 485
Trade receivables from exchange & receivables from non-exchange transactions	-	72 835 281	72 835 281
Other receivables from exchange transactions*	-	3 242 874	3 242 874
Cash and cash equivalents	-	157 781 702	157 781 702
	8 119 485	233 859 857	241 979 342
Financial liabilities			
		At amortised cost	Total
Payables from exchange transactions**		86 600 188	86 600 188
Long-term borrowings - Current portion		55 250 765	55 250 765
Long-term borrowings - Non-current portion		549 753 950	549 753 950
Finance lease - Current portion		238 932	238 932
Finance lease - Non-current portion		358 398	358 398
		692 202 233	692 202 233

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	2018 R	2017 R
30. Financial instruments disclosure (continued)		
* - excluding prepayments		
** - excluding payments received in advance		
Financial instruments in Statement of Financial Performance		
2018		
	At amortised cost	Total
Interest Income (calculated using effective interest method) for financial instruments at amortised cost	6 713 655	6 713 655
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(57 849 257)	(57 849 257)
Debt impairment	(348 104)	(348 104)
Gain on fair value adjustment	301 252	301 252
	(51 182 454)	(51 182 454)
2017		
	At amortised cost	Total
Interest Income (calculated using effective interest method) for financial instruments at amortised cost	17 042 742	17 042 742
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(63 616 207)	(63 616 207)
Debt impairment	(1 274 174)	(1 274 174)
Loss on fair value adjustment	(700 128)	(700 128)
	(48 547 767)	(48 547 767)

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	2018 R	2017 R
31. Capital commitments		
Authorised capital expenditure		
Approved and contracted		
• Buildings	2 689 279	5 609 414
• Computer equipment	-	92 737
• Furniture and fittings	537 979	102 704
• Motor vehicles	3 321 389	-
• Intangibles	130 655	2 117 719
• Office equipment	-	265 734
• Waste water works	231 222 038	195 780 058
• Plant and Machinery	9 131 683	-
	247 033 023	203 968 366
Total capital commitments		
Approved and contracted	247 033 023	203 968 366
<p>This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	298 266	298 266

Operating lease payments represent rentals payable by the entity for certain of its office equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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	2018 R	2017 R
32. Contingencies		
Contingencies are broken down into the following categories:		
Category A - Contingencies relating to ESKOM		
Category B - Bank Guarantees		
Category C - Guarantees		
Category D - Legal matters		
Category A - Contingencies relating to ESKOM:		
Included in work in progress is an ESKOM contract that stipulate that if ESKOM over spends the quoted amount they will be entitled to recover the variance up to 15% of the initial quoted amount. ESKOM will refund ERWAT should the cost be less than the quoted value.		
Category B - Bank Guarantees		
Eskom Rand Limited	954 600	954 600
Eskom Rand Limited	950 000	950 000
Stadsraad van Springs	90 000	90 000
Stadsraad van Midrand	94 200	94 200
Stadsraad van Kempton Park	80 750	80 750
Eskom	61 400	61 400
Randwateraad	15 750	15 750
Eskom	33 300	33 300
Eskom	46 500	46 500
Eskom	69 000	69 000
Town Council of Benoni	163 000	163 000
Stadsraad van Brakpan	22 000	22 000
Stadsraad van Heidelberg	87 100	87 100
Eskom	109 800	109 800
Stadsraad van Boksburg	145 000	145 000
	2 922 400	2 922 400
Category C - Guarantees		
Standard Bank - 216324009 M.A. Sathekge	14 000	14 000
Nedperm C.P. Mokgolobotho	3 800	3 800
	17 800	17 800
Category D - Legal Matters		
HM Eyethu Construction and Plant Hire CC	2 300 000	2 300 000
MS Khudu	570 000	570 000
Namston General Construction CC	4 923 358	-
	7 793 358	2 870 000
Total Contingencies	10 733 558	10 733 558

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	2018	2017
	R	R

32. Other receivables from exchange transactions (continued)

Notes:

Category C - Legal Matters

HM Eyethu Construction and Plant Hire CC:

HM Eyethu submitted an unsuccessful bid for the supply, delivery and installation of perimeter fences. HM Eyethu opened a case against ERWAT claiming loss of profit and out of pocket expenses related to the tender process.

Based on the assessment of ERWAT's attorneys, it is believed that HM Eyethu has no grounds to make the claim and that it is highly unlikely that their claim will be successful. The case had not been finalised as at 30 June 2018, and the outcome of the case is dependent on the court's decision.

KS Khudu

A transaction was entered into with KS Khudu for R5 million. Subsequently the supplier submitted a claim for an additional R500,000 as they claim to have made an error on the initial quotation submitted to ERWAT. ERWAT is of the opinion that the entity is not liable to pay the stipulated amount. This matter has not yet gone before the court.

The outcome of the claim is dependent on whether the matter is brought before the court and the outcome of the matter.

Namston General Construction t/a Nantos Waste

A contractual dispute regarding a 10% annual increase allegedly granted to the contractor. The contractor is claiming the 10% year-on-year increase on invoices issued to ERWAT which did not contain the increase. ERWAT is of the view that the 10% increase was not valid and therefore that the claim will not succeed. A potential liability however exists and therefore a contingent liability equal to value of the claim will be raised.

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	2018 R	2017 R
33. Related parties		
Relationships		
Accounting officer		Mr. T Gopane
Directors		Refer to general information section as well as directors and executive managers emoluments note 43.
Controlling entity		City of Ekurhuleni Metropolitan Municipality.
Fellow entities controlled by CoE		Brakpan Bus Company, Ekurhuleni Development Company, Pharoeh Park Housing Company, Germiston Housing Company and Lethlabong Housing Institute.
Members of key management		Refer to general information section as well as directors and executive managers emoluments note 43.
Related party balances		
Amounts included in payables from exchange transactions regarding related parties		
City of Ekurhuleni Metropolitan Municipality	4 487 909	6 783 835
Amounts included in trade receivables from exchange transactions		
City of Ekurhuleni Metropolitan Municipality	54 455 806	18 609 252
Amount included in receivables from non-exchange transactions		
City of Ekurhuleni Metropolitan Municipality	23 491 624	34 707 577
Related party transactions		
Prepayments received		
City of Ekurhuleni Metropolitan Municipality	-	773 688
Purchases from related parties		
City of Ekurhuleni Metropolitan Municipality	70 554 098	71 896 187
Sales to related parties		
City of Ekurhuleni Metropolitan Municipality	771 360 910	699 057 055
Grants and development contribution		
Grants - City of Ekurhuleni Metropolitan Municipality	50 000 000	50 000 000
Development contribution - City of Ekurhuleni Metropolitan Municipality	65 784 571	45 254 939

Guarantee and debtors ceded.

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carry value of R 490 305 536 (2017: R 533 281 072) as disclosed in the long-term borrowing note 13. The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. Refer to note 3 and 4.

Remuneration - Non-Executive Directors and Executive Managers

The remuneration of the non-executive directors, the executive directors and executive managers are included in note .

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	2018	2017	
	R	R	
33. Related parties (continued)			
Leased Assets			
The following works included under infrastructure, are leased assets from related parties (City of Ekurhuleni Metropolitan Municipality).			
Leased Assets	Cost	Accumulated depreciation	Net book value
Benoni	437 677	(424 537)	13 140
Dekema	168 150	(56 612)	111 538
H. Bickley	87 719	(28 433)	59 286
Rondebult	2 000 530	(855 317)	1 145 213
Rynfield	654 554	(161 729)	492 825
	3 348 630	(1 526 628)	1 822 002

Key management information

Class

Managing director

Chief financial officer

Executive manager: Operations

Executive manager: Infrastructure

planning and projects

Executive manager: Scientific services

Executive manager: Commercial

business

Executive manager: Human resources

Executive manager: Maintenance

Company secretary

34. Prior period errors

Receivables from exchange transactions:

During the current financial period it was established that deposits held by suppliers which accrued interest have not been recognised as interest bearing and are still disclosed at their originally recognised value. Due to the impracticality thereof the accrued interest have been recognised proportionally in the current year (R 193 988) as well as (2017: R 731 065) which gave rise to the prior year error being recognised.

Receivables from non-exchange transactions:

Development contribution to the value of R 40 153 289 was erroneously recognised in the 2016/17 financial period. The error occurred in the comparative financial period and will be corrected in that financial period. This had an effect of a decrease of R5 621 460 on VAT receivable.

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2018	2017
R	R

34. Prior period errors (continued)

VAT receivable:

In addition to the change regarding the VAT receivable above, as at 30 June 2017 Vat receivable included VAT input incorrectly claimed on Motor Vehicles. During the current financial period SARS disallowed this claim which resulted in Motor vehicles cost being understated by R 894 017.

Payables from exchange transactions:

Included in Payables from exchange transactions was a credit note relating to the 2016/2017 financial year which were incorrectly processed in the current financial period which resulted in the 2016/2017 Trade and Other Payables being overstated with R 5 242 140. This related to an invoice for Bulk purchases duplicated in error. In addition to this an amount of R 321 216 have been incorrectly allocated to Property, plant and equipment - Infrastructure Assets Under Construction which were correctly allocated to Accruals.

Property, plant and equipment:

An amount of R 106 476 has been incorrectly classified as Property, plant and equipment during the 2016/2017 financial period which related to intangible assets. This amount has now been classified correctly as intangible assets.

An amount of R 894 017 mentioned in the VAT receivable prior year error note above have been re-allocated to Property, plant and equipment - Motor Vehicles as a result of the facts mentioned. This error resulted in an additional amount of R5,189 depreciation in the prior year.

During the 2016/2017 financial period an amount of R 6 155 was incorrectly capitalised to Infrastructure Work In Progress instead of being expensed to Repairs and maintenance, cleaning and consumables. As stated in the Payables from exchange transactions note above, Property, plant and equipment was affected accordingly.

Land to the value of R 13 017 283 was not previously disclosed separately from buildings. Land and buildings have now been separately disclosed on the note (refer to Note 9).

Re-allocation of waterworks infrastructure to Buildings under construction

An amount of R 958,562 was incorrectly classified as work-in-progress relating to infrastructure-waterworks in the prior year. This amount has been re-allocated to work-in-progress relating to buildings in the current financial year.

Amounts incorrectly capitalised in the prior year:

An amount of R1,754,273 was incorrectly capitalised to property, plant and equipment in the prior year. These amounts have been corrected.

Re-allocation of waterworks (completed assets) to Work-in-progress.

An amount of R163,971,884.49 was incorrectly classified as waterworks (completed assets) in the prior year financial statements. This amount has now been re-allocated and reflected correctly as work-in-progress. In addition to this amount, R218 was written off during clearing of accounts.

The cumulative effect of the abovementioned errors relating to property, plant and equipment was that additions increased by an amount of R866,508 and there was a net decrease in the carrying value of Property plant and equipment of R 978 173.

Intangible assets:

As stated above, intangible assets to the amount of R 106 476 was incorrectly classified as Property, plant and equipment.

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	2018 R	2017 R
34. Prior period errors (continued)		
The correction of the error(s) results in adjustments as follows:		
Changes were made to the following expenses:		
General expenses as a result of:		
- Consulting fees to the value of R 1,234,063 erroneously capitalised as Property, plant and equipment in the prior year.		
- Repairs and Maintenance to the value R 205,118 erroneously capitalised as Property, plant and equipment in the prior year.		
Health, safety and protective clothing:		
- An amount of R 3,926,047 was re-mapped from Health, safety and protective clothing to insurance.		
- An amount of R 869,990 was re-mapped from employee cost to Health, safety and protective clothing.		
Actuarial gain:		
- An amount of R 1,783,000 was re-mapped from Employee costs to Actuarial gains and losses.		
Statement of financial position		
Property, plant and equipment	-	(978 173)
VAT receivable	-	4 727 443
Receivables from exchange transactions	-	731 065
Receivables from non-exchange transactions	-	(45 774 749)
Intangible assets	-	106 476
Payables from exchange transactions	-	5 242 140
Cummulative correction of rounding differences	-	(19)
Net Assets	-	(35 945 817)
Statement of financial performance		
Interest received - Deposits	-	(731 065)
Development contribution	-	40 153 289
Bulk purchases	-	(4 920 810)
Repairs and maintenance, Cleaning and Consumables	-	205 118
Employee related costs	-	(2 652 990)
General expenditure	-	2 104 053
Depreciation and amortisation	-	5 189
Actuarial losses	-	1 783 000
Cummulative correction of rounding differences	-	33
Surplus for the year	-	35 945 817

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		2018 R	2017 R	
35. Prior-year adjustments				
Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:				
Statement of financial position				
2017				
	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions - Deposits	5	4 450 806	731 065	5 181 871
VAT receivable	6	19 329 066	4 727 443	24 056 509
Property, plant and equipment	9	1 950 131 690	(978 173)	1 949 153 517
Receivables from non-exchange transactions		80 482 426	(45 774 749)	34 707 677
Intangible assets	10	6 509 099	106 476	6 615 575
Payables from exchange transactions	11	(92 616 015)	5 242 140	(87 373 875)
Cummulative correction of rounding differences		-	(19)	(19)
		1 968 287 072	(35 945 817)	1 932 341 255

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Restated
Interest received - Deposits	19	16 311 677	731 065	17 042 742
Employee related costs		(260 011 855)	2 652 990	(257 358 865)
Bulk purchases	27	(194 282 408)	4 920 810	(189 361 598)
Depreciation and amortisation		(64 681 182)	(5 189)	(64 686 371)
Repairs and maintenance		(98 469 813)	(205 118)	(98 674 931)
Development contribution		85 408 228	(40 153 289)	45 254 939
General expenditure		(75 982 296)	(2 104 053)	(78 086 349)
Actuarial gains/(losses)		-	(1 783 000)	(1 783 000)
Cummulative correction of rounding differences		-	(33)	(33)
		(591 707 649)	(35 945 817)	(627 653 466)

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	2018 R	2017 R
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36. Risk management

Capital

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.

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 on-going review of future commitments and credit facilities.

At 30 June 2018

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	56 404 628	53 995 207	156 371 439	287 074 342
Trade and other payables*	128 613 774	-	-	-

At 30 June 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	55 250 765	52 312 962	157 411 538	340 029 450
Trade and other payables*	86 600 187	-	-	-

*Excluded payments received in advance - contract in progress.

Interest rate risk

The entity's interest rate risk arises from long term-borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/deficit.

The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

At year end, financial instruments exposed to interest rate risk are indicated in note 13 ERWAT's income and operating cash are substantially independent of changes in market rates.

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	2018 R	2017 R
36. Trade receivables from exchange transactions (continued)		
Capital risk management		
Credit Risk		
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 a widespread customer base. Management evaluate credit risk relating to customers on an on-going basis.		
Price risk		
The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as other financial assets.		
The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.		
The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 13 cash and cash equivalents disclosed in note 8 .		
Consistent with others in the industry, the entity monitors capital on basis of the gearing.		
There are no externally imposed capital requirements.		
There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.		
Other Financial Assets:		
Short term investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the National Rating Definitions. ERWAT's exposure to any one financial institution, for short term investments is limited as follows:		
>A1+/F1+ Short Term Rating: 5% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.		
>A1/F1 Short Term Rating: 4% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.		
Financial assets exposed to credit risk at 30 June 2018 were as follows:		
Financial assets exposed to credit risk at year end were as follows:		
Trade receivables from exchange & receivables from non-exchange transactions	93 727 468	72 835 281
Deposits	3 439 791	3 235 843
Cash and cash equivalents	86 945 000	157 781 702
Listed shares	8 420 736	8 119 485
	192 532 995	241 972 311
Total borrowings	2018	2017
Other financial liabilities	(553 845 616)	(605 004 715)
Less: cash and cash equivalents	86 945 000	157 781 702
Net debt	(466 900 616)	(447 223 013)
Total Net assets	1 602 913 544	1 463 072 698
Total capital	1 136 012 928	1 015 849 685

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	2018 R	2017 R
36. Trade receivables from exchange transactions (continued)		
Market risk		
Currency Risk		
ERWAT only transacts in its functional currency (South African Rand) and its only involvement with foreign currencies relates to the situation where imported goods and services are procured. No material transactions denominated in foreign currencies occurred in the current financial year.		
in order to manage ERWAT's exposure related to the procurement of goods or services denominated in a foreign currency, the Rand value will be determined at the time of procurement, or where this not possible the Rand value will be determined as close as possible to the time of procurement.		
37. Going concern		
We draw attention to the fact that at 30 June 2018, the entity had an accumulated surplus of R 1 602 913 544 and that the entity's total assets exceed its liabilities by R 1 602 913 544.		
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 the continued support of City of Ekurhuleni Metropolitan Municipality (parent municipality) by way of payment for service charges for the treatment of waste water and the provision of related engineering services. These are paid each year in terms of the service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.		
38. Fruitless and wasteful expenditure		
The expenditure, as listed hereunder, have not been approved/condoned		
Opening balance	562 178	562 178
	562 178	562 178
During the 2017/2018 financial year ERWAT did not incur and fruitless and wasteful expenditure.		
39. Irregular expenditure		
Opening balance restated	239 334 422	183 958 180
Add: Irregular Expenditure - current year	19 421 404	903 491
Add: Expenditure incurred in the current year relating to prior year	16 636 099	54 472 751
	275 391 925	239 334 422

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	2018 R	2017 R
39. Irregular expenditure (continued)		
Inappropriate disqualification of quotation with a value less than R30 000	-	158 478
Contract extensions beyond the allowed 15% allowed for professional services related contracts by Circular 62 to the MFMA	-	884 858
Less than three quotations obtain for transactions with a value less than R30 000	-	20 715
14 awards were made without inviting at least the minimum prescribed number of written quotations	821 198	-
Incorrect application of SCM regulation 36 (deviations)	512 544	-
One construction contracts was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.	2 410 570	-
Variation of two tenders in excess of 20%	14 223 975	-
SCM regulation 12(3) on the aggregation of transactions for determination of the appropriate procurement process not fully adhered to	1 453 117	-
	19 421 404	864 051
Irregular expenditure arising from previous financial periods:		
Incidents currently under investigation		
Irregular expenditure arising from the 2015/16 financial period, incurred in the current and comparative financial periods. The irregular expenditure relates to contracts extended by a senior manager without the delegated authority to do so.	9 122 184	36 788 107
Irregular expenditure arising from the 2015/16 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v).	3 104 606	6 712 587
Irregular expenditure arising from the 2016/17 financial period, incurred in the 2017/18 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v).	2 892 864	-
Irregular expenditure arising from the 2016/17 financial period, incurred in the current and comparative financial periods. This irregular expenditure relates to expenditure incurred on an expired contract	1 375 446	1 086 380
	16 495 100	44 587 074
Request for condonement by the accounting officer. Request for condonement has been submitted to National Treasury. Currently awaiting approval.		
Irregular expenditure arising from the 2014/15 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to the incorrect composition of the Bid Adjudication Committee at the meeting held on 3 February 2015	-	9 885 676
	-	9 885 676
40. Additional disclosure in terms of Municipal Finance Management Act		
Audit fees		
Opening balance	-	7 665
Current year expense	1 579 678	1 362 338
Amount paid - current year	(1 579 678)	(1 370 003)

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	2018 R	2017 R
40. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE, UIF and SDL		
Opening balance		
Current year expense	2 980 618	20 990
Amount paid - current year	47 041 118	36 342 039
	(45 901 352)	(33 382 411)
	4 120 384	2 980 618
Pension and Medical Aid Deductions		
Opening balance		
Current year deductions	7 031	(22 997)
Amount paid - current year	65 855 121	60 783 598
	(65 902 160)	(60 753 570)
	(40 008)	7 031
41. Utilisation of Long-term liabilities reconciliation		
Outstanding long-term liabilities at the beginning of the year	605 004 715	632 711 970
Redemption of loans	(50 730 787)	(29 570 910)
Additional loans	-	2 093 580
Interest accrued	(492 708)	(229 925)
	553 781 220	605 004 715
Used to finance property, plant and equipment	(549 753 949)	(600 484 738)
Interest Accrued	4 027 271	4 519 977
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.		
Outstanding long-term liabilities		
Opening balance		
Capital	605 004 715	632 711 970
Interest accrual	(50 730 787)	(27 477 330)
	(492 708)	(229 925)
	553 781 220	605 004 715
42. 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 board and includes a note to the annual financial statements.		
The details of the deviations disclosed were documented and reported to the board of directors.		
The deviations incurred, as listed hereunder, have been approved		
Emergencies	988 163	5 204 820
Sole suppliers	866 762	1 254 300
Impracticability	8 046 141	14 334 687
	9 901 066	20 793 807

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43. Directors and Executive Managers Emoluments

	Salary or Fee	Bonuses and performance related payments	Medical contributions	Travel allowance/claim	Telephone and data card payments	Retirement fund contribution	Total package 2018	Total package 2017
Non-Executive Directors								
MM Mochatsi	318 231	-	-	-	19 200	-	337 431	328 757
N Koni	318 231	-	-	-	19 200	-	337 431	326 951
J Mojaelo - (Chairperson until 31 May 2017)	318 231	-	-	-	19 200	-	338 820	325 608
K Wall	318 231	-	-	1 389	19 200	-	337 431	333 943
L Bokaba	318 231	-	-	2 815	19 200	-	340 246	329 127
D Coovadia	318 231	-	-	3 352	19 200	-	340 783	330 794
EE Themba	318 231	-	-	-	19 200	-	454 193	340 040
CJ Cornish (Chairperson from 1 June 2017)	434 993	-	-	-	19 200	-	227 380	-
T Mdingi (Start date: 16 November 2017)	212 154	-	-	2 426	12 800	-	-	-
Total	2 556 533	-	-	9 982	147 200	-	2 713 715	2 709 737

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43. Directors and Executive Managers Emoluments (continued)

	Salary or Fee	Bonuses and Medical performance related payments	Medical Contributions	Travel allowance/claim	Telephone and data card payments	Retirement fund contribution	Total package 2018	Total package 2017
Chief Executive Officer								
FM Mabunda (Acting Managing Director until 31 August 2016)	1 505 440	125 008	45 040	-	52 800	217 300	1 945 588	269 576
T Gopane (Managing Director from 01 September 2016)								1 452 065
Subtotal	1 505 440	125 008	45 040	-	52 800	217 300	1 945 588	1 721 641
Executive Managers								
WI Louw - Chief Financial Officer	1 049 431	87 312	111 360	102 000	40 800	229 751	1 620 654	1 555 708
FM Mabunda - Executive Manager Operations	979 647	81 476	98 296	144 000	40 800	214 430	1 558 649	1 279 282
M Tsoetsi - Executive Manager Commercial Business	993 125	79 973	98 296	48 000	40 800	210 462	1 470 656	1 352 418
RW Barnes - Executive Manager Human Resources	1 079 402	89 723	75 512	78 000	40 800	236 355	1 599 792	1 503 525
A Chapman - Executive Manager Laboratory	901 939	75 023	90 808	30 000	40 800	197 445	1 336 015	1 270 652
ZZ Socikwa - Company Secretary	1 118 056	89 208	34 620	132 000	40 800	79 421	1 494 105	1 197 854
L.T. Roodie - Acting Executive Manager Operations	-	-	-	-	-	-	-	290 807
K Nihethe - Interim Executive Manager Development	-	-	-	-	-	-	-	172 585
EM Khomela - Interim Executive Manager Development	864 147	65 452	37 052	78 000	44 800	113 710	1 203 161	927 763
E Mutyaba - Interim Executive Manager Technical	796 429	61 515	76 088	40 000	43 600	104 784	1 122 416	482 789
Total	7 782 176	629 682	622 032	652 000	333 200	1 386 358	11 405 448	10 033 383

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44. Budget differences

Material differences between budget and actual amounts

Total Revenue - 107% achieved due to the following reasons:

Investment Revenue - 154% achieved

Interest received - Due to the timing of capital expenditure the average bank balance during the year was higher than anticipated and resulted an amount of interest income that was significantly higher than what was budgeted for.

Other own revenue - 140% achieved

As the receipt of development contributions is contingent on new developments within the Ekurhuleni area and ERWAT does not have control over income received in this regard. ERWAT therefore does not budget for development contributions and all income received will be a positive variance on other own income. An amount of R79,914,197 was received for development contribution. The development contribution received fully offset the R30,564,536 reduction in commercial revenue and resulted in a 44% positive variance on development contribution.

Total operating Expense - 96% achieved due to the following reasons:

Debt impairment - 23% achieved

Trade receivables from exchange transactions were written off during the year.

Other expenditure - 98% achieved

Due to optimisations in the waste water treatment process bulk purchases were less than the budgeted figures for the period. This includes lower electricity usage, less chlorine utilised for disinfection and less ferric chloride utilised for the removal of phosphates.

Capital Expenditure - 71% achieved

A conditional tender award that was made during May 2017 did not commence in July 2017 as planned. The reason for this was that the stipulated conditions could not be agreed to with the contractor. The value of this project was R69 245 030 and contributed 22,39% of the under-performance on capital expenditure. The remaining 6.61% under performance is attributed mainly to the reprioritisation of Capital Expenditure projects.

Net cash at the end of the year - 137%

Due to the under expenditure on capital items and the additional cash flows generated by Development contributions to the value of R85,734,653 a positive variance of R23,332,379 was noted.

45. Change in estimate

Property, plant and equipment

The useful lives of certain assets were reassessed during the 2018 financial year. Management have revised the estimated remaining useful lives of the assets and the effect of this revision has decreased depreciation by an amount of R2,875,724.

	2018	2017
Depreciation prior to the change in useful lives	68 434 307	-
Effect of change in useful lives	(2 875 724)	-
Depreciation after change in useful lives	65 558 583	-

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46. Subsequent events

The calculation of the bad debts provision was calculated based on amounts received from debtors after 30 June 2018. The total amount received subsequent to year end from doubtful debtors amounted to R 487 951, which was used when calculating bad debts provision.

At the meeting of the Board of Directors held on 26 September 2018 a decision was made by the Board of Directors that the bonus for the 2013/14 and 2017/18 financial period will not be paid (Totaling R 8,896,051). This decision taken in the period between the reporting date (30 June 2018) and the authorisation of the financial statements for issue (expected to be approved for issue to the municipal manager on 31 December 2018 and tabled to council on 31 January 2019).

The decision taken on 26 September 2018 provided additional evidence of conditions that existed at year end. The decision taken by the Board of Directors of ERWAT therefore represents an adjusting event after the reporting period. ERWAT have therefore adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

Refer to Note 12 for details regarding the reversal of the bonus provision.

47. Services in kind

The City of Ekurhuleni shares internal audit and audit committee services with ERWAT. These are paid by the City of Ekurhuleni on behalf of all entities that make use of it. ERWAT has determined these services received for free are not significant to our operations and therefore ERWAT does not recognise these services.

The audit committee sits both quarterly to process routine items as well on an ad-hoc basis to discuss the financial statements of ERWAT and the other entities of the City of Ekurhuleni Metropolitan Municipality.

The internal audit function is shared by ERWAT and the other entities with the City of Ekurhuleni Metropolitan Municipality. The areas covered by this shared internal audit includes quarterly and annual financial statement reviews, supply chain management, financial risk, maintenance, green drop compliance, fleet, adequacy of infrastructure, risk management and corporate governance and human resources.