



**a world class African city**

**CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### MAYORAL COMMITTEE

Executive Mayor

Mpho Franklin "Parks" Tau (Chairperson)  
(1 JUNE 2011 - 30 JUNE 2016)

Councillors

(1 JUNE 2011 - 30 JUNE 2016)  
Constance Bapela (Speaker of Council)  
Geoff Makhubo (Finance)  
Ruby Mathang (Economic Development)  
Rosslyn Greeff (Development Planning and Urban Management)  
Christine Walters (Transportation)  
Matshidiso Mfikoe (Environment and Infrastructure Services)  
Nonceba Molwele (Health and Human Development)  
Mally Mokoena (Corporate and Shared Services)  
Sello Lemao (Public Safety)  
Chris Vondo (Community Development)  
Daniel Bovu (Housing)  
Prema Naidoo (Chief Whip)

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### GRADING OF LOCAL AUTHORITY

The City of Johannesburg Metropolitan Municipality is a Grade Six Local Authority in terms of Item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.

### CITY MANAGER

Trevor Fowler

### CHIEF FINANCIAL OFFICER

Reggie Boqo

### REGISTERED OFFICE

Metropolitan Centre  
158 Loveday Street  
Braamfontein  
Johannesburg  
2001  
Telephone:  
+27 (0)11 407 - 6111  
Facsimile:  
+27 (0)11 339 - 5704

### POSTAL ADDRESS

P O Box 1049  
Johannesburg  
2000

### BANKERS

Standard Bank

### AUDITORS

The Office of the Auditor-General : Gauteng  
Registered Auditors  
61 Central Street  
Houghton  
2198  
PO Box 91081  
Auckland Park  
2006

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

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# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

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### Abbreviations

AUC	Assets Under Construction
BESA	Bond Exchange South Africa
CJMM	City of Johannesburg Metropolitan Municipality
WIP	Work In Progress
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
DMTN	Domestic Medium Term Note
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
JSE	Johannesburg Stock Exchange
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
USDG	Urban Settlement Development Grant
NDR	Non-distributable Reserve
PAYE	Pay As You Earn
PPE	Property, plant and equipment
SARS	South Africa Revenue Services
SCA	Supreme Court of Appeal
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation

# **City of Johannesburg Metropolitan Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Municipal Manager's approval of the Annual Financial Statements**

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I am responsible for the preparation of the Annual Financial Statements in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

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.

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**Accounting Officer**  
**City Manager**

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand thousand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	119 429	59 326
Loans to Municipal Entities	4	968 687	1 009 887
Finance lease receivables	6	72 363	60 357
Trade and other receivables	7	4 751 732	4 126 902
VAT receivable	8	171 744	284 336
Consumer debtors	9	884 745	813 190
Financial assets at fair value	10	356 555	4 190 880
Cash and cash equivalents	11	4 182 055	4 179 988
		<b>11 507 310</b>	<b>14 724 866</b>
<b>Non-Current Assets</b>			
Investment property	12	1 014 946	1 014 946
Property, plant and equipment	13	35 654 634	33 291 703
Intangible assets	14	496 678	439 925
Heritage assets	15	580 284	581 560
Investments in Municipal Entities	16	542 542	465 045
Loans to Municipal Entities	4	7 057 145	5 645 661
Other financial assets	5	77 232	63 375
Finance lease receivables	6	308 921	278 502
Financial assets at fair value	10	6 387 083	4 588 635
		<b>52 119 465</b>	<b>46 369 352</b>
<b>Total Assets</b>		<b>63 626 775</b>	<b>61 094 218</b>

\* See Note 45

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand thousand	Note(s)	2016	2015 Restated*
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Loans and borrowings	19	593 487	1 573 418
Finance lease obligation	20	51 778	100 173
Financial liabilities at fair value	10	444 674	137 930
Trade and other payables	21	11 281 973	11 701 434
Unspent conditional grants and receipts	22	393 613	203 912
Other financial liabilities at fair value	26	4 056	6 856
		<b>12 769 581</b>	<b>13 723 723</b>
<b>Non-Current Liabilities</b>			
Loans from Municipal entities	56	412 990	411 802
Loans and borrowings	19	17 458 698	14 093 244
Finance lease obligation	20	194 971	234 218
Financial liabilities at fair value	10	3 273 768	4 881 893
Employee benefit obligation	24	1 254 455	1 404 610
Provisions	23	35 000	20 000
Deferred income	25	46 344	45 637
Other financial liabilities at fair value	26	18 078	38 361
Consumer deposits	27	15 816	17 288
		<b>22 710 120</b>	<b>21 147 053</b>
<b>Total Liabilities</b>		<b>35 479 701</b>	<b>34 870 776</b>
<b>Net Assets</b>			
<b>Net Assets</b>			
Reserves			
Cashflow hedge reserve	58	(5 370)	(19 570)
Accumulated surplus		28 152 438	26 243 019
<b>Total Net Assets</b>		<b>28 147 068</b>	<b>26 223 449</b>

\* See Note 45



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand thousand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Rendering of services	30	429 427	380 840
Rental of facilities and equipment		133 566	96 622
Agency services		214 639	204 111
Licences and permits		1 211	1 121
Other revenue	32	1 038 717	802 252
Finance Income		1 104 673	1 102 586
<b>Total revenue from exchange transactions</b>		<b>2 922 233</b>	<b>2 587 532</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	29	8 138 059	7 674 931
<b>Transfer revenue</b>			
Government grants	31	8 607 732	8 489 353
Public contributions, donated and contributed property, plant and equipment		194 132	323 357
Fines, Penalties and Forfeits		294 864	585 951
<b>Total revenue from non-exchange transactions</b>		<b>17 234 787</b>	<b>17 073 592</b>
<b>Total revenue</b>		<b>20 157 020</b>	<b>19 661 124</b>
<b>Expenditure</b>			
Employee related costs	33	(5 155 438)	(4 883 914)
Remuneration of councillors	34	(133 887)	(127 499)
Provision		(15 000)	-
Depreciation and amortisation	35	(1 814 771)	(1 642 747)
Impairment losses	36	(434 643)	(145 645)
Finance costs		(1 942 628)	(1 647 307)
Debt Impairment	37	(805 350)	(1 345 451)
Repairs and maintenance		(398 993)	(312 122)
Contracted services	38	(1 703 270)	(1 877 397)
Transfers and Subsidies	39	(3 552 139)	(3 083 614)
Provision For Inventory write-down		-	(59 730)
General Expenses	40	(2 675 368)	(2 377 746)
<b>Total expenditure</b>		<b>(18 631 487)</b>	<b>(17 503 172)</b>
<b>Operating surplus</b>		<b>1 525 533</b>	<b>2 157 952</b>
Loss on disposal of assets		(33 209)	(11 139)
Reversal of Impairment	16	31 315	-
Fair value adjustments	41	385 787	259 765
		<b>383 893</b>	<b>248 626</b>
<b>Surplus for the year</b>		<b>1 909 426</b>	<b>2 406 578</b>

\* See Note 45

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets as at 30 June 2016

Figures in Rand thousand	Hedging reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>(37 721)</b>	<b>23 836 441</b>	<b>23 798 720</b>
Changes in net assets			
Amount recognise directly in other comprehensive income during the year	18 151	-	18 151
Net income recognised directly in net assets	18 151	-	18 151
Surplus for the year	-	2 406 578	2 406 578
Total recognised income and expenses for the year	18 151	2 406 578	2 424 729
Total changes	18 151	2 406 578	2 424 729
Opening balance as previously reported	(19 570)	26 195 271	26 175 701
Adjustments			
Prior year adjustments	-	47 741	47 741
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>(19 570)</b>	<b>26 243 012</b>	<b>26 223 442</b>
Changes in net assets			
Surplus for the year	-	1 909 426	1 909 426
Amount recognise directly in other comprehensive income during the year	14 200	-	14 200
Total changes	14 200	1 909 426	1 923 626
	-	-	-
<b>Balance at 30 June 2016</b>	<b>(5 370)</b>	<b>28 152 438</b>	<b>28 147 068</b>

\* See Note 45

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand thousand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		8 877 538	7 939 642
Grants		8 797 621	8 050 568
Interest income		974 930	1 079 182
		<u>18 650 089</u>	<u>17 069 392</u>
<b>Payments</b>			
Cash paid to suppliers and employees		(14 053 571)	(11 609 607)
Finance costs paid		(1 906 087)	(1 480 650)
		<u>(15 959 658)</u>	<u>(13 090 257)</u>
<b>Net cash flows from operating activities</b>	42	<b><u>2 690 431</u></b>	<b><u>3 979 135</u></b>
<b>Cash flows from investing activities</b>			
Purchase of capital assets	13	(5 317 509)	(6 032 515)
Investment in sinking fund	15	1 100 000	(266 667)
Loans redeemed from municipal entities		1 038 193	970 093
Finance lease receivables		(75 174)	(62 304)
Investment in Municipal entities		(46 182)	(57 605)
Loans redeemed from municipal entities		-	199 534
Loans to Municipal Entities		(1 540 568)	(1 792 769)
<b>Net cash flows from investing activities</b>		<b><u>(4 841 240)</u></b>	<b><u>(7 042 233)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		5 440 000	3 276 000
Liabilities from MEs		(6 506)	(6 449)
Repayment of borrowings		(3 064 348)	(970 295)
Finance lease obligation		(104 773)	(85 186)
Repayment of post retirement benefits		(111 497)	(115 061)
<b>Net cash flows from financing activities</b>		<b><u>2 152 876</u></b>	<b><u>2 099 009</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2 067</b>	<b>(964 089)</b>
Cash and cash equivalents at the beginning of the year		4 179 988	5 144 077
<b>Cash and cash equivalents at the end of the year</b>	11	<b><u>4 182 055</u></b>	<b><u>4 179 988</u></b>

\* See Note 45

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Rendering of Service	461 916	(40 686)	<b>421 230</b>	429 427	<b>8 197</b>	
Rental of facilities and equipment	144 582	(1 740)	<b>142 842</b>	133 566	<b>(9 276)</b>	
Agency services	253 960	(28 476)	<b>225 484</b>	214 639	<b>(10 845)</b>	
Licences and permits	749	-	<b>749</b>	1 211	<b>462</b>	
Other income	906 494	11 879	<b>918 373</b>	1 038 717	<b>120 344</b>	
Interest received	1 240 191	67 067	<b>1 307 258</b>	1 104 673	<b>(202 585)</b>	
<b>Total revenue from exchange transactions</b>	<b>3 007 892</b>	<b>8 044</b>	<b>3 015 936</b>	<b>2 922 233</b>	<b>(93 703)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	7 518 682	-	<b>7 518 682</b>	8 138 059	<b>619 377</b>	
<b>Transfer revenue</b>						
Government grants	8 622 400	331 740	<b>8 954 140</b>	8 607 732	<b>(346 408)</b>	
Public contributions and donations	-	1 464	<b>1 464</b>	194 132	<b>192 668</b>	
Other revenue	1 113 002	(99 399)	<b>1 013 603</b>	294 864	<b>(718 739)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>17 254 084</b>	<b>233 805</b>	<b>17 487 889</b>	<b>17 234 787</b>	<b>(253 102)</b>	
<b>Total revenue</b>	<b>20 261 976</b>	<b>241 849</b>	<b>20 503 825</b>	<b>20 157 020</b>	<b>(346 805)</b>	
<b>Expenditure</b>						
Employee Related costs	(5 358 617)	89 608	<b>(5 269 009)</b>	(5 155 438)	<b>113 571</b>	
Remuneration of councillors	(144 331)	-	<b>(144 331)</b>	(133 887)	<b>10 444</b>	
Provisions	-	-	-	(15 000)	<b>(15 000)</b>	
Depreciation and amortisation	(2 364 068)	(15 424)	<b>(2 379 492)</b>	(1 814 771)	<b>564 721</b>	
Impairment losses	-	-	-	(434 643)	<b>(434 643)</b>	
Finance costs	(1 995 059)	(54 476)	<b>(2 049 535)</b>	(1 942 628)	<b>106 907</b>	
Allowance for impairment of current receivables	(999 412)	102 524	<b>(896 888)</b>	(805 350)	<b>91 538</b>	
Repairs and maintenance	(600 217)	97 434	<b>(502 783)</b>	(398 993)	<b>103 790</b>	
Contracted Services	(2 150 985)	244 992	<b>(1 905 993)</b>	(1 703 270)	<b>202 723</b>	
Transfers and Subsidies	(3 362 521)	(298 151)	<b>(3 660 672)</b>	(3 552 139)	<b>108 533</b>	
General Expenses	(2 512 452)	(248 692)	<b>(2 761 144)</b>	(2 675 368)	<b>85 776</b>	
<b>Total expenditure</b>	<b>(19 487 662)</b>	<b>(82 185)</b>	<b>(19 569 847)</b>	<b>(18 631 487)</b>	<b>938 360</b>	
<b>Operating surplus</b>	<b>774 314</b>	<b>159 664</b>	<b>933 978</b>	<b>1 525 533</b>	<b>591 555</b>	
(Loss) gain on disposal of assets	40 000	(12 000)	<b>28 000</b>	(33 209)	<b>(61 209)</b>	
Reversal of Impairment	-	-	-	31 315	<b>31 315</b>	
Fair value adjustments	90 000	-	<b>90 000</b>	385 787	<b>295 787</b>	
	<b>130 000</b>	<b>(12 000)</b>	<b>118 000</b>	<b>383 893</b>	<b>265 893</b>	
<b>Surplus before taxation</b>	<b>904 314</b>	<b>147 664</b>	<b>1 051 978</b>	<b>1 909 426</b>	<b>857 448</b>	

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Management considers 10% or more of variance as material. A detailed description of the variances is provided below

Reference:

### Employee Related costs

Employee Related Costs is almost in line with the budget with the minor under variance of R 117 thousand at (2%).

### Impairment losses

Property rates due to a once off adjustment of R612 million, approved by the Mayoral Committee in respect of the non-recoverable book for deceased, liquidated estates and technical limited areas.

### Finance costs

"Due to savings as a result of delayed intake on long term borrowing, which resulted in saving on financing costs.

### Debt impairment - Allowance for impairment of current receivables

""Debt Impairment is over budget by R424 million (171%) mainly as a result of provision in the Group Finance Department

Reason: Property rates due to a once off adjustment of R612 million, approved by the Mayoral Committee in respect of the non-recoverable book for deceased, liquidated estates and technical limited areas.

"

### Repairs and maintenance

"• Transport Department: is under budget by R 42 million as a result of the following:

- o Delays in finalisation of the JPC, whom was appointed for the maintenance of taxi ranks and Rea Vaya stations.
- o Provision was made for the relocation of the Transport Department. However this never materialised.
- o The Rea Vaya Intelligent Transport System (ITS) tender was not awarded, which resulted in an under expenditure of ITS maintenance. This is the bulk of the repairs and maintenance cost. Currently ITS maintenance is done on a month to month basis.
- Community Development : is under budget by R 18 million (15%). The under budget is due to the late appointment of a panel of contractors which was only approved in February resulting in late commencement of major maintenance in the year.

### Contracted Services

- Office of City Manager : is under budget by R 10 million (23%) due to under spending on Jozi@work project ring fenced under Executive Mayor's Office.
- Group Finance : is under budget by R1 million (12%), The under budget is as a result of lower repairs and maintenance requested to date, as the department utilises this line item as and when only required.
- Group Corporate: is under budget by R 2,4 million (75%), mainly due to repairs being required on an adhoc basis resulting in a savings.
- Housing Department : is under budget is R10,7 million (21%), due to the delay in signing a Service Level Agreement with the Johannesburg Property Company.
- Johannesburg Property Company and Portfolio Account: is under budget by R12 million (23%) due to the deliberate cost cutting measures implemented in order to ensure that the expenditure is kept in allocated budget.
- Emergency Management Services: is under budget by R1,6 million (9%), as a result of spending on repairs and maintenance being limited to minor repairs and emergencies.
- Johannesburg Metropolitan Police Department: is under budget by R1,4 million (10%), due to the delay in signing the Service Level Agreement with the Johannesburg Property Company (JPC) for the repair and maintenance of buildings.

"

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

"Contracted Services is under budget by R197 million (10%) and the variance is attributed to the following departments:

- Office of the City Manager (Group Strategy) – R27 million (10%): due to under spending incurred on Community Based Planning special projects.
- Group Corporate – R2 million (1%): the year to date actual performance is almost in line with the budget, hence the minor variance is mainly due to accruals that are yet to be processed.
- Transport Department – R85 million (14%) under budget is due to the following reasons among others:
  - o A review of the North East Quadrant operational plan that will be completed in the new financial year hence underspending, delays on the Cycling Manual development project, review of the Sandon Master Plan, the finalisation of studies on the City Deep Master Plan and the transport management information systems.
- Group Finance – R27 million (24%): mainly due to the projects pertaining to land information systems, and retail bond issuance.
- Environment and Infrastructure Services – R16 million (20%): The under budget is due to savings realized on cell phone contract as well as on some feasibility studies carried out for nature reserves, river health, implementation of ecological infrastructure and water quality testing.
- Housing Department – R23 million (59%) : mainly due to underspending on the Municipal Human Settlement Capacity Grant. The Johannesburg Social Housing Company (Joshco) was to expend the grant on the Inner City Mega Projects by year-end but this has not materialised.
- Emergency Management Services – R5 million (5%): due to savings incurred on fleet costs (mainly on: Red Fleet Vehicles).

The following departments are over budget:

- Johannesburg Property Company and Portfolio Account – R6 million (54%): due to deliberate cost cutting measures implemented in order to ensure that expenditure is kept within allocated budget.

### General Expenses

Progress and variances on the budget is listed below and explanations of variances greater than 5% are provided.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand thousand

	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
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	7 518 682	-	7 518 682	-	-	7 518 682	8 138 059	-	619 377	108 %	108 %
Service charges	461 916	(40 686)	421 230	-	-	421 230	429 427	-	8 197	102 %	93 %
Investment revenue	1 240 191	67 067	1 307 258	-	-	1 307 258	1 104 673	-	(202 585)	85 %	89 %
Transfers recognised - operational	-	-	-	-	-	-	6 169 836	-	6 169 836	- %	- %
Other own revenue	2 548 787	(129 736)	2 419 051	-	-	2 419 051	2 101 963	-	(317 088)	87 %	82 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>11 769 576</b>	<b>(103 355)</b>	<b>11 666 221</b>	<b>-</b>	<b>-</b>	<b>11 666 221</b>	<b>17 943 958</b>	<b>-</b>	<b>6 277 737</b>	<b>154 %</b>	<b>152 %</b>
Employee costs	(5 358 617)	89 608	(5 269 009)	-	-	(5 269 009)	(5 155 438)	-	113 571	98 %	96 %
Remuneration of councillors	(144 331)	-	(144 331)	-	-	(144 331)	(133 887)	-	10 444	93 %	93 %
Debt impairment	(999 412)	102 524	(896 888)	-	-	(896 888)	(805 350)	-	91 538	90 %	81 %
Depreciation and asset impairment	(2 364 068)	(15 424)	(2 379 492)	-	-	(2 379 492)	(2 249 414)	-	130 078	95 %	95 %
Finance charges	(1 995 059)	(54 476)	(2 049 535)	-	-	(2 049 535)	(1 942 628)	-	106 907	95 %	97 %
Transfers and grants	(3 362 521)	(298 151)	(3 660 672)	-	-	(3 660 672)	(3 552 139)	-	108 533	97 %	106 %
Other expenditure	(5 263 654)	93 734	(5 169 920)	-	-	(5 169 920)	(4 827 704)	-	342 216	93 %	92 %
<b>Total expenditure</b>	<b>(19 487 662)</b>	<b>(82 185)</b>	<b>(19 569 847)</b>	<b>-</b>	<b>-</b>	<b>(19 569 847)</b>	<b>(18 666 560)</b>	<b>-</b>	<b>903 287</b>	<b>95 %</b>	<b>96 %</b>
<b>Surplus/(Deficit)</b>	<b>(7 718 086)</b>	<b>(185 540)</b>	<b>(7 903 626)</b>	<b>-</b>	<b>-</b>	<b>(7 903 626)</b>	<b>(722 602)</b>	<b>-</b>	<b>7 181 024</b>	<b>9 %</b>	<b>9 %</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand thousand

	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
Transfers recognised - capital	8 622 400	331 740	8 954 140	-		8 954 140	2 437 896		(6 516 244)	27 %	28 %
Contributions recognised - capital and contributed assets	-	1 464	1 464	-		1 464	194 132		192 668	- %	- %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>904 314</b>	<b>147 664</b>	<b>1 051 978</b>	<b>-</b>		<b>1 051 978</b>	<b>1 909 426</b>		<b>857 448</b>	<b>182 %</b>	<b>211 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>904 314</b>	<b>147 664</b>	<b>1 051 978</b>	<b>-</b>		<b>1 051 978</b>	<b>1 909 426</b>		<b>857 448</b>	<b>182 %</b>	<b>211 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	-	-	-	-		-	5 586 131		5 586 131	- %	- %



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Statement of compliance

#### Basis of Preparation and Presentation

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA) including any interpretations, guidelines and directives issued by the Accounting Standards Board

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

#### Presentation Currency

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

#### Going Concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

#### Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. 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

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements in conformity with GRAP, management is required to make judgements, estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. These estimates and underlying assumptions are reviewed on an ongoing basis. Effect of changes in estimates are accounted for on a prospective basis in the statement of financial performance.

#### Significant judgements include

##### Impairment of financial assets

Where objective evidence of impairment loss on financial assets measured at amortised cost exists, the present value of the future cash flows of the financial assets discounted at the financial asset's original effective rate is determined and compared to the carrying value of the financial assets. The carrying amount of asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognised in the statement of financial performance.

##### Allowance for slow moving, damaged and obsolete stock

Management makes an estimate of the selling price and direct cost to sell to determine the net realisable value of inventory items. Allowance for obsolete stock is recognised when stock is slow moving and/or will not be used. The difference between cost of inventory and the net realisable value is recognised in the statement of financial performance.

##### 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 the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Such valuation techniques include using recent arm's length market transactions, reference to current market value of other similar instruments, discounted cash flow analysis and option pricing models. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

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 the municipality for similar financial instruments.

#### **Impairment of property, plant and equipment**

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality then estimate the recoverable service amount of the asset.

The recoverable amounts of cash-generating units and individual assets are 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 fair value assumption may change which may then impact estimations and may then require a material adjustment to the carrying value of cash-generating units and individual assets.

The excess of the carrying amounts over the recoverable amount is recognised as impairment loss in the statement of financial performance.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Provisions, contingent liabilities and contingent assets

Management's judgement is required when recognising and measuring provisions as well as contingent liabilities and contingent assets. Provisions are raised based on the information available to management, and past knowledge.

A provision is recognised when the municipality has a present legal or constructive obligation 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 the amount of the obligation can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

#### Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to long-term nature of these plans, such estimates are subject to significant uncertainties.

#### Impairment of receivables

Impairment of receivables represent management best estimate based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. This is performed on each category of debtors across all debtor classes.

#### Useful life of PPE

The useful life of assets are based on management's estimates. Management considers the impact of technology, service requirements and the required return on assets to determine the optimum useful life expectation, where appropriate. The estimated residual value of assets is also based on management's judgement which takes into account the condition of assets at the end of their useful lives.

#### Budget information

A difference of 10% or more between budget and actual amounts is regarded as material. This percentage is based on management's estimate and is considered to be appropriate. All material differences are explained in the notes to the annual financial statements.

### 1.2 Investment property

#### Definition

Investment properties are immovable land and/or buildings that are held to earn rental income and/or for capital appreciation. Investment property excludes owner-occupied property that is used in the production or supply of goods or services or for administrative purposes, or property held to provide a social service.

#### Recognition

Investment property is recognised as an asset when and only when it is probable that future economic benefits or service potential that is associated with the investment property will flow to the entity and the cost or fair value can be reliably measured

#### Initial measurement

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.2 Investment property (continued)

Investment property is initially measured at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction( i.e. where it acquired the investment property for no or nominal value), its cost is its fair value as at the date of acquisition.

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#### Subsequent measurement.

Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment property other than vacant land is depreciated on the straight-line basis over the useful lives of the assets.

Depreciation is calculated on the depreciable amount , using the straight- line method over the estimated useful lives of the assets, except for land which is not depreciated. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.:

Investment properties, with the exception of land, are depreciated on the straight line basis over their expected useful lives as follows:

Item	Useful life
Property - Land	Unlimited
Property - Buildings	30 years

The useful life and the depreciation method for investment properties are reviewed at each reporting date

Investment properties are tested for impairment whenever there is an indication that the asset may be impaired

Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

#### Derecognition

The municipality derecognises investment property on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit.

### 1.3 Property, plant and equipment

#### Definition

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.

#### Recognition

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

Property, plant and equipment is initially measured at cost.

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

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

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

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Item	Depreciation method	Average useful life (Years)
Buildings	Straight line	30
Plant and Equipment	Straight line	2-15
Furniture and fittings	Straight line	7
Motor vehicles	Straight line	3-5
Office equipment	Straight line	3-5
Dogs and Horses	Straight line	5-7
Infrastructure	Straight line	10-30
Community	Straight line	3-30
Emergency Equipment	Straight line	5-15
Land	Straight line	Unlimited
Bins and containers	Straight line	5-10
Library Books	Straight line	10
Specialised vehicles	Straight line	12-15
Other	Straight line	4-40

#### Subsequent measurement

PPE are shown at cost, less accumulated depreciation and any accumulated impairment. Land is measured at cost, less any impairment in value and is not depreciated, since the useful life is considered to be indefinite.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready and available for its use as intended by management.

Property, plant and equipment with the exception of land are depreciated on a straight line basis over their expected useful lives to their estimates residual values. Depreciation method used for each asset reflected the pattern in which the asset's economic benefits or service potential has been expected to be consumed by the Municipality.

Assets held under finance leases are depreciated on the lower of lease term or expected useful lives same as owned assets. When it is reasonable certain that ownership will be transferred to the lessee at end of lease term, then leased asset will be depreciated over the useful life of the asset which is consistent with that for depreciable assets that are owned. Depreciation is recognised in the statement of financial performance.

Subsequent expenditure are included in the cost of the asset when incurred, if it is probable that such expenditure will result in future economic benefits associated with the item flowing to the Municipality, and the cost can be measured reliably.

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

The residual values, useful lives and depreciation methods applied to assets are reviewed at each financial year-end based on relevant market information and management consideration.

Property, plant and equipment are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

#### Derecognition

The gain or loss arising from 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.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

The municipality derecognises property, plant and equipment on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the property, plant and equipment. Such difference is recognised in the statement of financial performance.

### 1.4 Intangible assets

#### Definition

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

An asset is identifiable if it either:

- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

#### Recognition

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 municipality; and
- the cost or fair value of the asset can be measured reliably.

#### Initial Measurement

Intangible assets are initially recognised at cost. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

#### Subsequent Measurement

Under the cost model intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Amortisation commences when the intangible assets are available for their intended use. The amortisation period and method for intangible assets with finite useful lives are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with finite useful life are amortised on a straight-line basis over the useful lives of assets.

For intangible assets with an indefinite useful life, no amortisation is provided but only tested for impairment annually and whenever there is an indication that the asset may be impaired. However, the Municipality reviews the useful life of an intangible asset that is not being amortised each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Item	Useful life
Computer software	2-8 years

### 1.5 Heritage assets

#### Definition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Heritage assets (continued)

#### Recognition

A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

#### Initial measurement

A heritage asset that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### Subsequent measurement.

Heritage assets are recognised at cost less accumulated impairment. Due to high residual value and long economic life, Municipality does not depreciate heritage assets

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset, and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Principles of assets transferred to heritage assets apply up until the date of transfer.

Heritage assets are tested for impairment annually and whenever there is an indication that the asset may be impaired

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from disposal and derecognition is determined as the difference between the net disposal proceeds, if any, and the carrying amount.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Heritage assets (continued)

#### Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts. The transitional provision expires on 2015-06-30.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where heritage assets are acquired through a transfer of functions, the municipality is not required to measure the heritage assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires in terms of Directive 2, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with.

### 1.6 Financial instruments

#### Classification



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### 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.

#### FINANCIAL ASSETS

Financial asset is a) cash; b) a residual interest of another entity; or (c) a contractual right to:

(i) Receive cash or another financial asset from another entity; or

(ii) Exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial assets consist of cash and cash equivalent, deposits, receivables and investments.

Financial assets other than those at fair value are assessed for indicators of impairment at the end of each reporting period. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Municipality has transferred substantially all risks and rewards of ownership, or when the enterprise loses control of contractual rights that comprise the assets.

To the extent that a financial asset has a maturity period of longer than 12 months, the value of these instruments will be reflected as a non-current asset.

The classification of financial assets depends on their nature and purpose, and is determined at the time of initial recognition (trade date).

#### INVESTMENT AT COST

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. These include investment in municipal entities. Financial instrument are initial held at cost and subsequently measured at cost less any impairment. Impairment loss is recognised in the statement of financial performance.

#### FINANCIAL ASSETS AT FAIR VALUE

Financial assets at fair value comprise of derivatives and non-derivative financial instruments designated at fair value. On initial recognition the financial assets are measured at fair value Subsequent to initial recognition, all changes to fair value are recognised through the statement of financial performance

#### CASH AND CASH EQUIVALENT

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables and consumer debtors are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of financial performance when there is objective evidence that the asset is impaired.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable and consumer debtors are impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

recognised in the statement of financial performance within operating expenses. When trade receivables and consumer debtors are uncollectible, it is written off against the allowance account for trade receivables and consumer debtors once council approval is obtained. Subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

#### FINANCIAL LIABILITIES

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

Financial liabilities consist of interest-bearing borrowings, trade and other payables, bank overdrafts and interest-bearing money market borrowings, liabilities categorised at fair value through profit or loss and derivatives held for hedging (refer to accounting policy on hedge accounting).

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, except for financial liabilities at fair value through profit or loss or hedging instruments, which are measured at fair value.

Finance costs on financial liabilities at amortised cost are expensed in the statement of financial performance in the period in which they are incurred using the effective interest rate method. In addition, gains and losses on these financial liabilities are recognised in the statement of financial performance when the liability is derecognised.

Gains and losses on financial liabilities at fair value through profit or loss arise from fair value movements and related transaction costs on these liabilities. These gains and losses are recognised in the statement of financial performance in the period in which they are incurred.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or when it expires.

#### LOANS FROM MUNICIPAL ENTITIES

Loans from municipal entities are classified as financial liabilities which are initially recognised at fair value and subsequently measured at amortised cost.

#### PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### HEDGE ACCOUNTING (DERIVATIVES)

The municipality holds derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the derivative as the hedging instrument, the municipality formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The municipality makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported statement of financial performance.

Derivatives are recognised initially at fair value, and attributable transaction costs are recognised in the statement of

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

financial performance as incurred.

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### CASH FLOW HEDGES

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect statement of financial performance, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in net assets. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the statement of financial performance.

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in the statement of financial performance.

### 1.7 Leases

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

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

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

The municipality recognises assets and liabilities acquired under finance leases as assets and the associated obligation as 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 finance lease assets are depreciated at the same rates as owned property unless Municipality will not obtain ownership. Where there is no reasonable certainty that Municipality will obtain ownership by the end of lease term, the leased assets are depreciated over the shorter of the lease term and its useful life.

Minimum lease payments are apportioned between the finance charge and the outstanding capital portion, using the effective interest rate method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

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

#### 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.

Leased assets are presented in the statement of financial position according to the nature of assets. Municipality applies same depreciation policy for leased assets (operating) as the normal depreciation policy for similar assets.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Leases (continued)

#### 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.

### 1.8 Inventories

#### Definition

Inventories are assets in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services, held for sale or distribution in the ordinary course of operations, or in the process of production for sale or distribution.

#### Recognition

Inventory 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 fair value can be measured reliably.

#### Initial measurement

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, their costs are their fair value as at the date of acquisition.

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

#### Subsequent measurement

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. Management estimate, based on their assessment of quality and volume, the extent to which inventory on hand at the reporting date will be sold below cost.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality. The valuation of inventories is performed using weighted average method.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Derecognition

The municipality derecognises inventory on disposal, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of inventory is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the inventory. Such difference is recognised in statement of financial performance.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.9 Impairment of cash generating assets

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

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

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).

An impairment loss is recognised for cash-generating assets if the carrying amount is higher than the recoverable amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit. Impairment loss is recognised in the statement of financial performance. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable service amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of financial performance.

Recoverable amount of cash generating unit is the higher of its fair value less cost to sell, and its value in use.

#### **IMPAIRMENT OF NON-CASH GENERATING ASSETS**

Non-Cash-generating assets are those assets held by the municipality with the primary objective other than generating a commercial return.

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

At the end of each reporting period, carrying amounts of non-cash-generating assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable service amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives as well as intangible assets not yet available for use are tested for impairment annually at the same time every year, as well as whenever there is an indication that the asset may be impaired.

The recoverable amount of a non-cash-generating asset is the higher of fair value less costs to sell, and the value-in-use. The value-in-use is the present value of the remaining potential of the asset, and is determined using the most appropriate of the depreciated replacement cost, restoration cost or service units approach.

The discount rate used reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of financial performance.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable service amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of financial performance.

### 1.10 Internal reserves

#### **Compensation for occupational injuries and diseases (COID) reserve**

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### 1.10 Internal reserves (continued)

The Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) is aimed to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is 0.75% of the salary expense.

The municipality is an exempt employer in terms of Section 84 (1) (a) (ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the municipality is mandated to establish its own fund and administers this fund in terms of the COID Act.

The certificate of exemption issued by the Commissioner and prescribed by the COID Act requires the Municipality to deposit cash and/or securities with the Commissioner, the market values of which in aggregate shall not be less than the capitalised value of the Municipality's continuing liability as at 31 December of each year.

The continuing liability is that of annual pensions, the capitalised value of which is determined on the basis of an actuarial determination prescribed by the Commissioner.

A COID reserve has been established to equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner, and the Municipality is required to meet any shortfall in the aggregate value of the securities as at 31 December. Monthly pensions are funded by transferring funds from the reserve to the expense account in the statement of financial performance.

### 1.11 Conditional grants and receipts

### 1.12 Budget information

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

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

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013-06-30 to 2016-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

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

### 1.13 Employee benefits

#### Short-term employee benefits

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

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

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

The Municipality recognises the expected cost of bonus, incentive and performance related payments when and only when: (a) it has a present legal or constructive obligation to make such payments as a result of past events, (b) a reliable estimate of the obligation can be made.

#### Defined contribution plans

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Employee benefits (continued)

A defined contribution plan is a post-employment pension plan under which the municipality pays fixed contributions into a separate entity (a fund). The municipality has no further payment obligations once the contributions have been paid. Accordingly, the municipality recognises the contributions to the scheme as an expense when the employees have rendered a service.

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit funds are actuarially valued on the projected credit method.

Consideration is given to any event that could impact the funds up to end of the reporting period where the valuation is performed at an earlier date.

Past service costs are recognised immediately in the statement of financial performance in the reporting period in which the plan is amended.

Actuarial gains and losses are recognised in full in the statement of financial performance when they arise.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement. The Municipality does not only account for legal obligation under formal terms but also for any constructive obligation that arises from the entity's informal practices.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation less fair value of planned assets out of which obligations are to be settled directly, plus any liability that may arise as a result of the minimum funding requirement.

#### Multi-employer plans

The municipality classifies a multi-employer plan either as a defined contribution plan or a defined benefit plan.

Under defined benefit plan, the Municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

Under defined benefit plan, the Municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

#### Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

#### Bonus pensionable service and medical boarding's.

The benefits of Bonus Pensionable Service and Medical Boardings are afforded to members of certain funds in terms of the applicable rules of the relevant funds. The payments are accounted for in the statement of financial performance in the period in which it is paid.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies

Provisions are recognised when the municipality 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 obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Expense relating to provisions is presented in the statement of financial performance.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Where the effect of time value of money is material, the amount of provision is discounted to present value at the discount rate which is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

Additional disclosures of estimates of provisions are included in the provisions note.

Contingent assets and contingent liabilities are not recognised but are separately disclosed. 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.



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.15 Revenue from exchange transactions

Revenue is the gross inflow 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 from exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange

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

#### Revenue from sale of Bus ticket points

Revenue from the sale of ticket points is accounted for as separately identifiable component of a sale for normal points and bonus points. Each point is equivalent to one rand value. Bonus points are earned by customers only on purchases of points above the value of R50. Any bonus points not redeemed in 36 months (3 years) are subject to expiry thereafter any deferred revenue previously recognised is then recognised as revenue.

Revenue arising from sale of bus tickets for both normal and bonus points is initially accounted for as deferred revenue (liability) in the statement of financial position and only recognised as revenue upon redemption of normal or bonus points, or upon the expiry date.

Revenue is recognised at fair value for normal points and for bonus points revenue is recognised at fair value which is equivalent to the cost of transferring the points that is the consideration allocated to the bonus points is measured by reference to the amount which the bonus points could be sold separately.

At the end of each period, deferred revenue is recognised which is measured at fair value of points earned which are yet to be redeemed.

#### Sale of goods

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Revenue from exchange transactions (continued)

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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

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

#### Income from agency services

Revenue arising from situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of commission or fee payable to the municipality for services performed.

#### Interest revenue

Interest revenue is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

### 1.16 Revenue from non-exchange transactions

Revenue is a gross inflow of economic benefits or service potential received which represents an increase in the net assets, other than increases relating to contribution from owners.

Non-exchange transactions are transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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

#### Fines

Revenue from the issuing of fines is recognised when:

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines :

- Traffic fines issued in terms of the Criminal Procedures Act
- Traffic fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO ACT).

#### **Criminal Procedures Act fines:**

These fines are issued in terms of the Criminal Procedures Act and are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified day ( in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process).

#### **Initial recognition:**

An asset acquired through a non- exchange transaction shall initially be measured at fair value at the date of acquisition which is the best estimate of the inflow of economic benefits. An inflow of resources from a non- exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

There is uncertainty regarding the probability of the flow of economic benefits in respect of criminal procedure act fines. Legal processes have to be undertaken before the criminal procedure act fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. Where a reliable estimate cannot be made of revenue from summonses, the Municipality cannot recognise revenue and receivable until this judicial process has been completed and a reliable estimate can be made.

#### **Subsequent measurement**

IGRAP1 states that the assessment and recognition of an impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment should not be made at the time of initial recognition.

#### **AARTO traffic fines**

These are fines issued in terms of the AARTO Act by way of notices to offenders which specify the value of the fine that must be paid, along with any discount that can be applied if the fine is paid within a specific period of time.

#### **Initial recognition**

An asset acquired through a non- exchange transaction shall initially be measured at fair value at the date of acquisition which is the best estimate of the inflow of economic benefits. An inflow of resources from a non- exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

The COJ is legally entitled to 50% of the face value of the fines, taking into account the best estimate of the inflow of economic benefits in terms of GRAP 23.

In terms of the AARTO ACT par 32(1) and (2), RTIA is legally entitled to receive 50% of the face value of such fine plus other administrative cost so incurred as compensation for their services in collecting and adjudication process.

IGRAP1 states that the assessment and recognition of an impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment should not be made at the time of initial recognition

#### **Government grants**

Government grants are recognised as revenue when:

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

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

#### Conditional grants

Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the Municipality incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the Municipality is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service potential. Therefore, when a Municipality initially recognises an asset that is subject to a condition it also recognises a liability. Revenue on such grants is recognised when the qualifying expenditure has been incurred and to the extent that conditions have been complied with.

#### Unconditional grants

The Municipality recognises revenue from unconditional grants upon receipt and/or when resources transferred meet the criteria for recognition as an asset and there is also no present obligation to the Municipality to refund transferred resources to the transferor.

Unconditional grants also includes grants with restrictions since restrictions do not include a requirement that the transferred asset, or future economic benefits or service potential be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the Municipality a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Municipality recognises grants with restriction and unconditional grants as revenue upon receipt of the grant and no corresponding liability is recognised. Unconditional grants are measured at their fair value.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Revenue from rates is measured using gazetted tariffs.

Public contributions and donations including goods in-kind donations

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

Public contributions and donations are voluntary transfers of assets including cash or other monetary assets.

Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations.

Public contributions and donations (other than services 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.

Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Public contribution and donations including goods in-kind are measured at their fair value as at the date of acquisition.

### 1.17 Investment income

Investment income comprises interest income on funds invested. Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Inkind services

The Municipality does not recognise services in kind as revenue or assets, but separately discloses the nature and type of major classes of services in kind as a note to the financial statements.

### 1.20 Unauthorised expenditure

Unauthorised expenditure is any expenditure incurred by a municipality otherwise than in accordance with the approved budget as well as expenditure exceeding the limits of the amounts appropriated for in the different votes in the approved budget.

Depending on circumstances, identified unauthorised expenditure will be authorised by council in an adjustment budget, certified by municipal council as irrecoverable and written off by the council or recovered from liable official or political office bearer. In cases where unauthorised expenditure is recoverable from official or political office bearer this resulting from necessary investigations, revenue and receivables are recognised. Unauthorised expenditure is disclosed in the notes to the financial statements.

### 1.21 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 which was incurred and identified during the financial year and also condoned by the council in terms of MFMA, is only disclosed in the notes to annual financial statements. However, fruitless and wasteful expenditure which was incurred and identified during the financial year but failed to be condoned by the council is initially recognised as expenditure based on its nature and after further investigations classified to receivables and revenue. Where it is not possible to recover the revenue recognised from fruitless and wasteful, the receivable is written-off following proper write off processes in terms of the MFMA.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.22 Irregular expenditure

Irregular expenditure is expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the MFMA, Municipal Systems Act, the Public Office-Bearers Act, and which has not been condoned in terms of the MFMA.

Irregular expenditure which was incurred and identified during the financial year and also condoned by the council in terms of MFMA, is only disclosed in the notes to annual financial statements. Irregular expenditure which was incurred and identified during the current financial year but was still waiting condonement by a council at year end, is only disclosed in the note to financial statements.

### 1.23 Related parties

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.

Management is considered a related party, and comprises of the councillors, Executive Mayor, Mayoral Committee Members, City Manager, Chief Operating Officer, Executive Directors and Group Heads.

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

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).

Related party relationships where control exists are disclosed. The municipality discloses the nature of the related party relationship as well as information about those transactions and outstanding balances as a note to the financial statements.

### 1.24 Events after reporting date

Events after 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 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 municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.25 Commitments

A Commitment is a contract that is non-cancellable or only cancellable at significant cost, to the extent that the amount has not been recorded elsewhere in the financial statements.

Commitments are further split into capital and operating commitments.

Capital commitments are amounts committed to acquire goods and services which are of capital in nature i.e. upgrading and/or construction of assets.

Operating commitments are amounts committed to acquire day-to-day goods and services required to sustain municipality's business operations.

These commitments are disclosed in the notes to the annual financial statements.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

2016

2015

### 2. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

In the current financial year, the Municipality has adopted effective new and revised standards and its interpretations issued by ASB. However, Municipality only adopted effective standards which are relevant to its business operations. :

The following Standards and Interpretations were in issue but not yet effective:

<u>Name</u>	<u>Effective Date</u>
GRAP 20 - Related Parties	Not yet effective
GRAP 32 - Service Concession arrangements: Grantor	Not yet effective
GRAP 109 - Accounting by principles and agents	Not yet effective
GRAP 108 - Statutory receivables	Not yet effective

Above-mentioned standards and interpretations which are relevant to Municipality's business operations will be adopted once they become effective.

The municipality applied the principles established in the Standard of GRAP that has been issued, but not yet effective, in developing an appropriate accounting policy dealing with the Related Parties (GRAP 20).

Preliminary investigations indicated that, other than additional disclosure, the impact of the new standards on the financial statements will be minimal).

### 3. INVENTORIES

Consumable stores	118 109	58 006
Housing stock	1 320	1 320
	<b>119 429</b>	<b>59 326</b>

Cost of inventory expense is included under general expenses.



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

2016

2015

### 4. LOANS TO MUNICIPAL ENTITIES

#### Shareholder Loans

City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 17.5% Maturity = 30 June 2026	581 814	581 814
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 14.5% Maturity 30 June 2026.	42 979	42 979
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 15% Maturity 30 June 2018.	121 286	181 938
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 14.5% Maturity 30 June 2018.	8 681	13 023
	<b>754 760</b>	<b>819 754</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>4. LOANS TO MUNICIPAL ENTITIES (continued)</b>		
<b>Conduit loans</b>		
PIKITUP Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.18% Maturity = 30 June 2026	121 055	121 054
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.2% Maturity = 30 June 2015	-	-
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 9% Maturity = 30 June 2016	-	89 793
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 9% Maturity = 30 June 2017	93 736	179 401
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 12.21% Maturity = 30 June 2018	148 202	209 794
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2019	184 449	233 685
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2020	250 533	297 860
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2021	194 049	221 694
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate 9.31% Maturity = 30 June 2022	293 131	327 935
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate 9.65% Maturity = 30 June 2023	46 548	50 982
Johannesburg Metropolitan Bus Services (Pty) Ltd Terms and conditions: Rate = 9% Maturity = 30 June 2016	-	19 707
Johannesburg Metropolitan Bus Services (Pty) Ltd Terms and conditions: Rate = 9% Maturity = 30 June 2017	1 303	2 494
Johannesburg Metropolitan Bus Services (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2018	1 678	2 389
Johannesburg Power (Pty) Ltd Terms and conditions: Rate = 10.,18% Maturity = 30 June 2024	812 446	880 290
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 9.88% Maturity = 30 June 2025	453 259	-
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.2% Maturity = 30 June 2016	-	44 261
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = Jibar less 35bp Maturity = 15 May 2026	72 560	108 840
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2018	158 492	225 682
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2019	171 899	217 786

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>4. LOANS TO MUNICIPAL ENTITIES (continued)</b>		
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = Rate = 10.9% Maturity = 30 June 2020	245 689	292 102
Johannesburg Water (Pty) Ltd Terms and conditions: Jibar plus 70pb Maturity = 15 May 2026	414 330	455 763
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2021	194 387	222 080
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 9.31% Maturity = 30 June 2022	248 743	278 277
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 9.65% Maturity = 30 June 2023	555 141	608 016
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.18% Maturity = 30 June 2024	734 925	791 424
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 14.15% Maturity = 30 June 2026	628	628
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 12.42% Maturity = 30 June 2026	2 937	2 937
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.2% Maturity = 30 June 2026	5 785	5 785
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 9% Maturity = 30 June 2026	19 701	19 701
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.2% Maturity = 30 June 2026	30 171	30 171
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 12.21% Maturity = 30 June 2026	14 379	14 379
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range=12.21% Maturity= 30 June 2026	7 885	7 885
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range=12.21% Maturity = 30 June 2026	19 983	19 983
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range =10.78% Maturity = 30 June 2026	14 738	14 738
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range = 10.4% Maturity = 30 June 2026	15 309	15 309
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range =9.31% Maturity = 30 June 2026	22 398	22 398
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range = 9.65% Maturity = 30 June 2026	27 265	27 265
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate range = 9.88% Maturity = 30 June 2025	631 058	-
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.2% Maturity = 30 June 2017	8 575	16 318

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>4. LOANS TO MUNICIPAL ENTITIES (continued)</b>		
Johannesburg Metropolitan Bus Services (Pty) Ltd Terms and conditions: Rate = 9.88% Maturity = 30 June 2025	351 270	-
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 9,88% Maturity = 30 June 2025	104 982	-
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.2% Maturity = 30 June 2016	-	8 775
The Johannesburg Metro Trading Company(Pty) Ltd Terms and conditions: Rate range = 11.89% Maturity = 30 August 2035	1 302 552	-
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.9% Maturity = 30 June 2018	9 420	13 413
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 9% Maturity = 30 June 2019	8 207	10 485
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.4% Maturity = 30 June 2020	9 164	10 918
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.4% Maturity = 30 June 2021	9 312	10 660
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 9.31% Maturity = 30 June 2022	20 265	22 671
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 9.65% Maturity 30 June 2023	-	6 889
	<b>8 032 539</b>	<b>6 162 617</b>
Less impairment of loans to Municipal Entities	<b>(761 467)</b>	<b>(326 823)</b>
	<b>7 271 072</b>	<b>5 835 794</b>
Non-current assets	7 057 145	5 645 661
Current assets	968 687	1 009 887
	<b>8 025 832</b>	<b>6 655 548</b>

### Reconciliation of provision for impairment of loans to municipal entities

Opening balance	326 823	181 179
Additional impairment - Pikitup Johannesburg (Pty) Ltd	104 982	121 054
Additional impairment - Johannesburg Metropolitan Bus Services (Pty) Ltd	329 662	24 590
	<b>761 467</b>	<b>326 823</b>

### Impairment of loan to Pikitup Johannesburg (Pty) Ltd

The entity has entered into a contractual obligation with the City to repay the amount that was borrowed to the entity. The reason for the impairment is due to the default in the repayments of the specific loans that were issued to Pikitup. As much as the entity has recovered financially they are still defaulting on the Capital repayments of the loans.

### Additional impairment - Johannesburg Metropolitan Bus Services (Pty) Ltd

The Johannesburg Metro Bus company is technically insolvent and has liquidity challenges. The entity has put in a place a turn around strategy aimed to improve the liquidity problem in the long term. The current liquidity problem has led to the impairment of the current portion of the loan.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>5. OTHER FINANCIAL ASSETS</b>		
<b>At amortised cost</b>		
Housing Selling scheme loans	26 629	26 629
Other loans and receivables	50 603	36 746
	<b>77 232</b>	<b>63 375</b>
<b>Non-current assets</b>		
At amortised cost	77 232	63 375

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>6. FINANCE LEASE RECEIVABLES</b>		
<b>Gross investment in the lease due</b>		
- within one year	108 274	90 945
- in second to fifth year inclusive	369 463	299 376
- later than five years	1 072	44 339
	<hr/>	<hr/>
	478 809	434 660
less: Unearned finance revenue	(97 525)	(95 801)
Present value of minimum lease payments receivable	<hr/>	<hr/>
	381 284	338 859
	<hr/>	<hr/>
	<b>381 284</b>	<b>338 859</b>
<b>Present value of minimum lease payments due</b>		
- within one year	72 363	60 357
- in second to fifth year inclusive	305 923	272 885
- later than five years	2 998	5 617
	<hr/>	<hr/>
	<b>381 284</b>	<b>338 859</b>
	<hr/>	<hr/>
Non-current assets	308 921	278 502
Current assets	72 363	60 357
	<hr/>	<hr/>
	<b>381 284</b>	<b>338 859</b>
	<hr/>	<hr/>

COJ entered into a Finance lease on 1 March 2012 with various MOEs for specialised vehicles. The interest rate implicit on the agreement is 10%.

The unguaranteed future values of assets leased under finance lease at the end of the reporting period amount to R 97 525 (2015: R 95 801).

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>7. TRADE AND OTHER RECEIVABLES</b>		
Prepayments	6 724	98 578
Operating lease receivables	61 849	60 294
Sundry debtors	909 522	323 439
Housing debtors	272 081	309 217
Fruitless and wasteful expenditure to be investigated	4 474	2 366
Traffic Fines	122 334	112 487
Accrued VAT	215 283	231 339
Related party debtors	3 159 465	2 989 182
<b>Total trade and other receivables</b>	<b>4 751 732</b>	<b>4 126 902</b>
<b>8. VAT RECEIVABLE</b>		
VAT	171 744	284 336

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>9. CONSUMER DEBTORS</b>		
<b>Gross balances</b>		
Rates	6 151 586	5 544 812
Housing rental	388 705	317 720
	<b>6 540 291</b>	<b>5 862 532</b>
<b>Less: Allowance for impairment</b>		
Rates	(5 281 612)	(4 744 399)
Housing rental	(373 934)	(304 943)
	<b>(5 655 546)</b>	<b>(5 049 342)</b>
<b>Net balance</b>		
Rates	869 974	800 413
Housing rental	14 771	12 777
	<b>884 745</b>	<b>813 190</b>
Current Assets	884 745	716 651



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 9. CONSUMER DEBTORS (continued)

#### Rates

Current (0 - 30 days)	843 138	553 499
31 - 60 days	183 911	212 575
61 - 90 days	184 117	153 938
91 - 120 days	165 271	159 992
121 - 365 days	816 526	977 432
> 365 days	3 958 623	3 487 376
	<b>6 151 586</b>	<b>5 544 812</b>

#### Housing rental

Current (0 - 30 days)	13 230	11 346
31 - 60 days	6 533	5 676
61 - 90 days	6 345	5 606
91 - 120 days	6 285	5 365
121 - 365 days	6 216	5 451
> 365 days	350 096	284 276
	<b>388 705</b>	<b>317 720</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 9. CONSUMER DEBTORS (continued)

#### Summary of debtors by customer classification

##### Consumers

Current (0 - 30 days)	457 924	581 620
31 - 60 days	99 075	137 772
61 - 90 days	86 456	102 590
91 - 120 days	92 722	112 987
121 - 365 days	351 563	679 227
> 365 days	1 853 461	1 824 226
	<b>2 941 201</b>	<b>3 438 422</b>
Less: Allowance for impairment	(2 564 473)	(3 086 931)
	<b>376 728</b>	<b>351 491</b>

##### Consumers - Past due and impaired

Current (0 - 30 days)	387 643	486 171
31 - 60 days	85 457	116 763
61 - 90 days	74 714	87 093
91 - 120 days	79 888	95 833
121 - 365 days	302 173	573 248
> 365 days	1 634 598	1 727 823
	<b>2 564 473</b>	<b>3 086 931</b>

##### Consumers - Past due and not impaired

Current (0 - 30 days)	70 281	89 923
31 - 60 days	13 618	20 952
61 - 90 days	11 742	15 441
91 - 120 days	12 835	17 100
121 - 365 days	49 390	105 924
> 365 days	218 862	102 151
	<b>376 728</b>	<b>351 491</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 9. CONSUMER DEBTORS (continued)

#### Industrial/ commercial

Current (0 - 30 days)	370 413	264 014
31 - 60 days	78 012	74 058
61 - 90 days	98 371	52 575
91 - 120 days	70 675	55 099
121 - 365 days	411 937	268 048
> 365 days	2 264 691	1 463 282
	<hr/>	<hr/>
	3 294 099	2 177 076
Less: Allowance for impairment	(2 826 977)	(1 835 527)
	<hr/>	<hr/>
	<b>467 122</b>	<b>341 549</b>

#### Industrial/ commercial - Past due and impaired

Current (0 - 30 days)	317 887	222 594
31 - 60 days	66 949	62 439
61 - 90 days	84 422	44 327
91 - 120 days	60 653	46 455
121 - 365 days	353 522	225 995
> 365 days	1 943 544	1 233 717
	<hr/>	<hr/>
	<b>2 826 977</b>	<b>1 835 527</b>

#### Industrial/ commercial - Past due and not impaired

Current (0 - 30 days)	52 527	41 420
31 - 60 days	11 063	11 619
61 - 90 days	13 950	8 248
91 - 120 days	10 022	8 644
121 - 365 days	58 415	42 053
> 365 days	321 145	229 565
	<hr/>	<hr/>
	<b>467 122</b>	<b>341 549</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 9. CONSUMER DEBTORS (continued)

#### National and provincial government

Current (0 - 30 days)	28 030	8 476
31 - 60 days	13 357	6 421
61 - 90 days	5 618	4 378
91 - 120 days	8 159	2 729
121 - 365 days	59 242	30 150
> 365 days	190 568	98 341
	<u>304 974</u>	<u>150 495</u>
Less: Allowance for impairment	(261 727)	(126 885)
	<b>43 247</b>	<b>23 610</b>

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

Current (0 - 30 days)	24 056	7 146
31 - 60 days	11 463	5 414
61 - 90 days	4 821	3 692
91 - 120 days	7 002	2 301
121 - 365 days	50 841	25 420
> 365 days	163 544	82 912
	<u>261 727</u>	<u>126 885</u>

#### National and provincial government - Past due and not impaired

Current (0 - 30 days)	3 975	1 330
31 - 60 days	1 894	1 007
61 - 90 days	797	687
91 - 120 days	1 157	428
121 - 365 days	8 401	4 730
> 365 days	27 023	15 428
	<u>43 247</u>	<u>23 610</u>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>9. CONSUMER DEBTORS (continued)</b>		
<b>Total</b>		
Current (0 -30 days)	856 367	854 110
31 - 60 days	190 444	218 251
61 - 90 days	190 445	159 543
91 - 120 days	171 556	170 815
121 - 365 days	822 742	977 425
> 365 days	4 308 720	3 385 849
	<b>6 540 274</b>	<b>5 765 993</b>
Less: Allowance for impairment	(5 653 177)	(5 049 343)
	<b>887 097</b>	<b>716 650</b>
<b>Less: Provision for debt impairment</b>		
Current (0 - 30 days)	729 586	715 911
31 - 60 days	163 869	184 616
61 - 90 days	163 957	135 112
91 - 120 days	147 543	144 589
121 - 365 days	706 536	824 663
> 365 days	3 741 686	3 044 452
	<b>5 653 177</b>	<b>5 049 343</b>
<b>Total debtor past due but not impaired</b>		
Current (0 - 30 days)	126 783	132 673
31 - 60 days	26 575	33 578
61 - 90 days	26 489	24 376
91 - 120 days	24 014	26 172
121 - 365 days	116 206	152 707
> 365 days	567 030	347 144
	<b>887 097</b>	<b>716 650</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(5 049 342)	(5 032 507)
Contributions to allowance	(606 204)	(960 002)
Reversal of allowance	-	943 167
<b>Balance at the end of the year</b>	<b>(5 655 546)</b>	<b>(5 049 342)</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>10. FINANCIAL ASSETS AT FAIR VALUE</b>		
<p>The Debt redemption fund is a financial solution to assist the City of Johannesburg Municipality meet its financial obligations to repay previously issued bonds. The City of Johannesburg Municipality pays contributions into the fund, which is managed by a 3rd party fund manager, so as to enable the Municipality to receive contributions plus growth to repay redemptions of the bonds when they fall due. This is part of the risk management framework adopted by City of Johannesburg Municipality.</p>		
<p>The total investments pledged as collateral for CJMM Bonds</p>		
<p>The investments pledged as collateral cannot be sold until the related liability is settled in full.</p>		
<p>The Terms and conditions are such that the collateralised asset upon maturity should be of the same value as the liability so that the liability can be redeemed.</p>		
<p>Sinking Fund Maturity - 05.06.2023</p>		
<b>Other financial assets through profit or loss</b>		
Bond	1 787 397	1 194 596
Floating rate note	1 330 024	1 336 212
Forward rate agreement	3 840	-
Amortising Swap	337 798	198 893
Bond Options	-	54 181
Swaps	2 928 024	1 804 752
<b>Non-Current Assets</b>	<b>6 387 083</b>	<b>4 588 634</b>
<b>Other financial liabilities through profit or loss</b>		
Bond	-	2 704 406
Floating rate note	222 917	224 528
Forward rate agreement	7 516	5 327
Amortising Swap	147 544	174 607
Bond Options	-	66 927
Swaps	2 895 791	1 706 098
<b>Non-Current Liabilities</b>	<b>3 273 768</b>	<b>4 881 893</b>
<b>Other financial assets through profit or loss</b>		
Bonds	65 692	348 475
Bond option	19 525	72 120
Bond repos	-	3 018 257
Negotiable Certificate of Deposit	-	309 073
Cash	47 711	374 618
Cash collateral	251	27 364
Forward Rate Agreements	15 702	17 596
Swaps	5 100	23 377
Promissory Notes	202 575	-
<b>Current Assets</b>	<b>356 556</b>	<b>4 190 880</b>
<b>Other financial liabilities through profit or loss</b>		
Bonds	887	1 657
Bond Repos	376 139	521
Bond Options	41 045	88 037
Forward Rate Agreements	18 394	14 095
Swaps	8 209	33 620
<b>Current Liabilities</b>	<b>444 674</b>	<b>137 930</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 10. FINANCIAL ASSETS AT FAIR VALUE (continued)

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# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 10. FINANCIAL ASSETS AT FAIR VALUE (continued)

#### Financial assets carried at fair value through profit or loss

Derivatives designated and effective as hedging instruments carried at fair value	4 640 013	3 507 130
Held for trading non-derivative financial assets	2 103 625	5 272 383
	<b>6 743 638</b>	<b>8 779 513</b>

#### Financial liabilities carried at fair value through profit or loss

Derivatives designated and effective as hedging instruments carried at fair value	3 341 416	2 313 238
Held for trading non-derivative financial liabilities	377 027	2 706 584
	<b>3 718 443</b>	<b>5 019 822</b>

#### Cash Collateral

Money is pledged as collateral as part of the ISDA agreement for the various interest rates swaps entered into with other municipal entities as counterparties.



# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand thousand	2016	2015
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### 11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	129	120
Bank	1 069 816	905 420
Call investment deposits	3 112 110	3 274 448
	<b>4 182 055</b>	<b>4 179 988</b>

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# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>11. CASH AND CASH EQUIVALENTS (continued)</b>		
<b>Call investment deposits</b>		
Call Deposits STD Bank Rating - (F1+)	1 363	1 406
Fixed Deposits STD Bank Rating - (F1+)	584 300	333 800
Fixed Deposits ABSA Rating - (F1+)	956 891	508 500
Call Deposits ABSA Rating - (F1+)	134 444	481 656
Call Deposits RMB Rating - (F1+)	1 100	1 100
Fixed Deposits RMB Rating - (F1+)	-	700 000
Call Deposits INVESTEC Rating - (F1)	1 108	1 249
Fixed Deposits INVESTEC Rating - (F1)	384 700	83 500
Call Deposits NEDBANK Rating - (F1+)	1 031	116 090
Fixed deposits NEDBANK Rating (F1+)	31 077	300 000
Call Deposits CITI BANK Rating - (F1)	1 993	1 611
Fixed Deposits CITY BANK Rating - (F1)	176 400	-
Call Deposits DEUTSCHE BANK Rating - (F1)	2 600	14 000
Fixed Deposits DEUTSCHE BANK Rating - (F1)	-	242 000
Call Deposits TCTA Rating - (None)	2 000	2 000
Call Deposits LANDBANK Rating - (F1+)	51 050	1 050
Stanlib Call Investment Rating - (F1+)	782 053	486 486
	<b>3 112 110</b>	<b>3 274 448</b>
Underwriting of COID reserve	83 200	83 500
Capital replacement reserve	3 542 458	3 236 684
	<b>3 625 658</b>	<b>3 320 184</b>

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 12. INVESTMENT PROPERTY

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 014 946	-	1 014 946	1 014 946	-	1 014 946

#### Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	1 014 946	-	-	-	1 014 946

#### Reconciliation of investment property - 2015

	Opening balance	Additions	Transfers	Total
Investment property	1 012 688	-	2 258	1 014 946

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 municipality.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 13. PROPERTY, PLANT AND EQUIPMENT

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	8 485 365	-	8 485 365	8 241 841	-	8 241 841
Buildings	10 989 768	(3 388 844)	7 600 924	10 808 824	(2 972 398)	7 836 426
Plant and equipment	317 978	(217 072)	100 906	273 255	(186 190)	87 065
Furniture and fittings	531 901	(393 359)	138 542	496 741	(342 122)	154 619
Motor vehicles	362 514	(283 717)	78 797	324 849	(231 397)	93 452
Office equipment	1 010 457	(723 370)	287 087	840 862	(562 103)	278 759
Infrastructure	13 546 699	(4 757 324)	8 789 375	11 685 525	(3 999 439)	7 686 086
Community	1 812 517	(723 245)	1 089 272	1 639 083	(603 002)	1 036 081
Other	1 667	(718)	949	1 666	(608)	1 058
Bins and containers	12 402	(8 762)	3 640	12 280	(7 268)	5 012
Work in progress	8 512 230	-	8 512 230	7 251 064	-	7 251 064
Specialised vehicles	790 070	(316 382)	473 688	760 484	(235 288)	525 196
Library books	651 709	(596 995)	54 714	642 913	(585 556)	57 357
Emergency equipment	61 442	(22 297)	39 145	55 575	(17 888)	37 687
<b>Total</b>	<b>47 086 719</b>	<b>(11 432 085)</b>	<b>35 654 634</b>	<b>43 034 962</b>	<b>(9 743 259)</b>	<b>33 291 703</b>

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### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Transfers	Depreciation	Total
Land	8 241 841	292 978	-	(49 454)	-	-	8 485 365
Buildings	7 836 426	49 624	-	-	103 763	(388 889)	7 600 924
Plant and equipment	87 065	40 721	-	(51)	(1 218)	(25 611)	100 906
Furniture and fittings	154 619	10 234	-	(313)	16 309	(42 307)	138 542
Motor vehicles	93 452	9 425	-	-	5 095	(29 175)	78 797
Office equipment	278 759	125 032	-	(534)	11 116	(127 286)	287 087
Infrastructure	7 686 086	618 849	-	(1 302 551)	2 544 874	(757 883)	8 789 375
Community	1 036 081	53 608	-	-	119 709	(120 126)	1 089 272
Other	1 058	-	-	-	-	(109)	949
Bins and containers	5 012	75	-	-	47	(1 494)	3 640
Work in progress	7 251 064	4 061 423	-	-	(2 800 257)	-	8 512 230
Specialised vehicles	525 196	-	-	-	-	(51 508)	473 688
Library books	57 357	8 796	-	-	-	(11 439)	54 714
Emergency equipment	37 687	4 146	-	(21)	1 742	(4 409)	39 145
	<b>33 291 703</b>	<b>5 274 911</b>	<b>-</b>	<b>(1 352 924)</b>	<b>1 180</b>	<b>(1 560 236)</b>	<b>35 654 634</b>

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### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	7 863 846	347 061	(11 589)	42 523	-	8 241 841
Buildings	7 793 345	165 493	(101)	262 568	(384 879)	7 836 426
Plant and equipment	100 977	13 888	(1 275)	-	(26 525)	87 065
Furniture and fittings	166 193	26 280	(298)	7 742	(45 298)	154 619
Motor vehicles	102 169	65	(1 123)	-	(7 659)	93 452
Office equipment	327 523	72 725	(355)	13 221	(134 355)	278 759
Infrastructure	7 788 711	435 955	-	168 007	(706 587)	7 686 086
Community	1 017 884	51 968	(7)	71 206	(104 970)	1 036 081
Other	91	998	(1)	-	(30)	1 058
Bins and containers	4 133	1 346	(6)	323	(784)	5 012
Work in progress	2 905 426	5 153 026	-	(807 388)	-	7 251 064
Specialised vehicles	558 138	40 932	-	-	(73 874)	525 196
Library books	55 452	11 573	-	-	(9 668)	57 357
Emergency equipment	33 479	8 387	(41)	-	(4 138)	37 687
	<b>28 717 367</b>	<b>6 329 697</b>	<b>(14 796)</b>	<b>(241 798)</b>	<b>(1 498 767)</b>	<b>33 291 703</b>

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### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	67 884	(37 792)	30 092	54 968	(19 097)	35 871
Red fleet	-	-	-	337 956	(242 006)	95 950
BRT Busses	355 021	(190 362)	164 659	355 021	(160 776)	194 245
<b>Total</b>	<b>422 905</b>	<b>(228 154)</b>	<b>194 751</b>	<b>747 945</b>	<b>(421 879)</b>	<b>326 066</b>

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 municipality.

The red fleet lease expired on the 31 August 2015.

# City of Johannesburg Metropolitan Municipality

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### 14. INTANGIBLE ASSETS

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 841 766	(1 345 088)	496 678	1 530 479	(1 090 554)	439 925

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Computer software	439 925	311 220	(29)	95	(254 533)	496 678

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	239 389	116 961	237 752	(154 177)	439 925



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### 15. HERITAGE ASSETS

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	524 723	-	524 723	525 999	-	525 999
Historical monuments	14 457	-	14 457	14 457	-	14 457
Historical buildings	41 104	-	41 104	41 104	-	41 104
<b>Total</b>	<b>580 284</b>	<b>-</b>	<b>580 284</b>	<b>581 560</b>	<b>-</b>	<b>581 560</b>

#### Reconciliation of heritage assets 2016

	Opening balance	Transfers	Total
Art Collections, antiquities and exhibits	525 999	(1 276)	524 723
Historical monuments	14 457	-	14 457
Historical buildings	41 104	-	41 104
	<b>581 560</b>	<b>(1 276)</b>	<b>580 284</b>

#### Reconciliation of heritage assets 2015

	Opening balance	Additions	Transfers	Total
Art Collections, antiquities and exhibits	521 018	3 195	1 786	525 999
Historical monuments	14 457	-	-	14 457
Historical buildings	41 104	-	-	41 104
	<b>576 579</b>	<b>3 195</b>	<b>1 786</b>	<b>581 560</b>

The following heritage asset(s) cannot be reliably measured: Other [Give a description of the heritage asset of class of heritage assets]. Fair value cannot be determined reliably due to [Give an explanation]. The range of estimates within which fair value is highly likely to lie is R-and R-.

The entity has disposed of... [Give a description of the heritage asset of class of heritage assets] on and a gain/loss of R- was recognised as a result. The carrying amount at the date of disposal was R-.

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### 16. INVESTMENTS IN MUNICIPAL ENTITIES

#### Gross investment

	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
City of Johannesburg Property Company (Pty) Ltd	100 %	100 %	8 119	8 119
City Power Johannesburg (Pty) Ltd	100 %	100 %	112 466	112 466
Johannesburg City Parks	100 %	100 %	29 958	29 958
Johannesburg Development Agency (Pty) Ltd	100 %	100 %	16 278	16 278
Johannesburg Metropolitan Bus Services (Pty) Ltd	100 %	100 %	54 774	54 774
Johannesburg Roads Agency (Pty) Ltd	100 %	100 %	227 627	181 445
Metropolitan Trading Company (Pty) Ltd	100 %	100 %	94 994	94 994
Pikitup Johannesburg (Pty) Ltd	100 %	100 %	31 315	31 315
Johannesburg Civic Theatre	100 %	100 %	1 784	1 784
The Johannesburg Fresh Produce Market (Pty) Ltd	100 %	100 %	20 000	20 000
			<b>597 315</b>	<b>551 133</b>

#### Impairments

	Carrying amount 2016	Carrying amount 2015
Johannesburg Metropolitan Bus Services (Pty) Ltd	(54 774)	(54 774)
Pikitup Johannesburg (Pty) Ltd	-	(31 315)
	<b>(54 774)</b>	<b>(86 089)</b>

#### Net investment

	Carrying amount 2016	Carrying amount 2015
City of Johannesburg Property Company (Pty) Ltd	5 142	5 142
City Power Johannesburg (Pty) Ltd	112 466	112 466
Johannesburg City Parks	29 958	29 958
Johannesburg Development Agency (Pty) Ltd	16 278	16 278
Johannesburg Metropolitan Bus Services (Pty) Ltd	-	-
Johannesburg Roads Agency (Pty) Ltd	227 627	181 445
Johannesburg Social Housing Company (Pty) Ltd	-	-
Johannesburg Water (Pty) Ltd	-	-
Metropolitan Trading Company (Pty) Ltd	97 972	97 972
Pikitup Johannesburg (Pty) Ltd	31 315	-
The Johannesburg Civic Theatre (Pty) Ltd	1 784	1 784
The Johannesburg Fresh Produce Market (Pty) Ltd	20 000	20 000
	<b>542 542</b>	<b>465 045</b>

CJMM has investments in the following Municipal Entities that are less than R1,000.

Johannesburg Social Housing Company (Pty) Ltd - R120.00

Johannesburg Water (Pty) Ltd - R 200.

Investments in ME's includes shareholder loans with no fixed repayment terms and interest.

The Investment in PIKITUP (Pty) Ltd has been reversed based on the improved Financial position and performance of the entity. All indicators reflect that the investment is no longer impaired and hence the reversal of the investment.

### 17. INVESTMENTS IN JOINT VENTURES

CJMM has an investment in a Joint venture that is less than R1,000.

Golden Triangle Development Company (Pty) Ltd - R500.00.

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### 18. FINANCIAL ASSETS BY CATEGORY

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

#### 2016

	Loans and receivables	At fair value	Total
<b>Current Assets</b>			
Loans to Municipal Entities	968 687	-	968 687
Other financial assets	-	356 555	356 555
Consumer debtors	884 745	-	884 745
Call investment deposits	3 112 110	-	3 112 110
Bank balances and cash	1 069 945	-	1 069 945
<b>Non-Current Assets</b>			
Loans to Municipal Entities	7 057 145	-	7 057 145
Other financial assets	50 603	6 387 083	6 437 686
	<b>13 143 235</b>	<b>6 743 638</b>	<b>19 886 873</b>

# City of Johannesburg Metropolitan Municipality

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<b>19. LOANS AND BORROWINGS</b>		
<b>Non Current portion of loans and borrowings - At amortised cost</b>		
Structured loans *	16 609	29 942
Development Bank South Africa	5 326 316	2 899 533
Listed bonds	7 749 000	6 475 667
Other financial liabilities	4 366 773	4 688 102
	<b>17 458 698</b>	<b>14 093 244</b>
<b>Current portion of loans and borrowings - At amortised cost</b>		
Structured loans *	13 333	13 333
Development Bank South Africa	73 217	72 871
Listed bonds	166 667	1 233 333
Other financial liabilities	340 270	253 881
	<b>593 487</b>	<b>1 573 418</b>
	<b>18 052 185</b>	<b>15 666 662</b>

\* Structured loans are secured by an investment which will redeem the loan at maturity.

# City of Johannesburg Metropolitan Municipality

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<b>20. FINANCE LEASE OBLIGATION</b>		
<b>Minimum lease payments due</b>		
- within one year	72 137	123 875
- in second to fifth year inclusive	211 537	220 602
- later than five years	27 999	78 095
	<u>311 673</u>	<u>422 572</u>
less: future finance charges	(64 924)	(88 181)
<b>Present value of minimum lease payments</b>	<b><u>246 749</u></b>	<b><u>334 391</u></b>
<b>Present value of minimum lease payments due</b>		
- within one year	51 778	100 173
- in second to fifth year inclusive	168 293	162 355
- later than five years	26 678	71 863
	<u>246 749</u>	<u>334 391</u>
Non-current liabilities	194 971	234 218
Current liabilities	51 778	100 173
	<u>246 749</u>	<u>334 391</u>

A register containing the information is available for inspection at the registered office of the CJMM.

It is municipality policy to lease certain buildings and equipment under finance leases.

1. Resultant

The Finance Lease liabilities relate to Office Equipment with lease terms of three years. There are no renewal or purchase options and no restrictions imposed by the lease agreements.

2. Red Fleet

Finance Lease Liabilities relate to Emergency Service Vehicles with a lease term of 10 years(excluding extensions). The lease is set to expired in August 2015.

3. **Bus Operating Company**

Finance Lease Liabilities relate to vehicles with a lease term of 12 years. Capitalised Lease Liabilities are secured by the related finance lease assets.

The carrying values of the finance leased assets are included under other property, plant and equipment. Refer to note 13.

# City of Johannesburg Metropolitan Municipality

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### 21. TRADE AND OTHER PAYABLES

#### Financial liabilities

Accrued interest	167 695	124 753
Credit balances in consumer debtors	1 051 029	981 350
Engineering fees	100 960	95 538
Operating lease payables	1 610	4 967
Other creditors	1 001 067	706 543
Related party creditor	6 597 689	6 328 061
Retentions	55 695	67 347
Trade payables	1 986 281	3 095 051
	<u>10 962 026</u>	<u>11 403 610</u>

#### Other liabilities

Accrued bonus	12 955	12 384
Accrued leave pay	291 941	269 831
Payments received in advanced	15 051	15 609
	<u>319 947</u>	<u>297 824</u>
	<u><b>11 281 973</b></u>	<u><b>11 701 434</b></u>

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### 22. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Provincial grants : Capital projects	166 339	167 788
Urban settlements development grant	94 985	-
Provincial grants : Top Structure of houses	-	108
Provincial grants : Operational projects	24 210	9 383
Public Transport Network Grant (Capital Projects)	2 475	1 819
Neighbourhood development partnership grant	57 558	19 158
Expanded Public Works Programme (EPWP)	910	-
Provincial grant : Jozi Ihlomihle (Hiv/Aids)	-	95
Public Transport Network Grant (Operational Projects)	45 246	3 502
Unspent public contributions and donations	1 890	2 059
	<b>393 613</b>	<b>203 912</b>

Revenue received from conditional grants, donations and funding are recognised to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

A liability is recognised for any unfulfilled conditions, criteria, obligations and other contingencies attaching to government grants or assistance.

See note 31 for reconciliation of grants from National/Provincial Government.

# City of Johannesburg Metropolitan Municipality

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### 23. PROVISIONS

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for Damages claim	20 000	-	-	-	20 000
Provision for Maintenance Contract	-	14 000	-	-	14 000
Provision for Security Contract	-	1 000	-	-	1 000
	<b>20 000</b>	<b>15 000</b>	-	-	<b>35 000</b>

#### Reconciliation of provisions - 2015

	Opening Balance	Utilised during the year	Settlement during the year	Settlement	Total
Provision for consultation fees	23 737	-	(23 737)	-	-
Provision for Damages Claim	20 000	-	-	-	20 000
Provision for Cleaning Services	1 800	-	(1 800)	-	-
	<b>45 537</b>	-	<b>(25 537)</b>	-	<b>20 000</b>

#### Provision for Maintenance Contract

An Arbitration matter in which Questek, the claimant, claims that the City must pay it approximately R14 million for services rendered in a maintenance contract at the City's request. The City does not deny the services but submits that it overpaid the service provider in another contract and there should be a set off.

#### Provision for Security Contract

On 21 August, the High Court ordered that Mjayeli suffered damages which are limited to 30 days proven loss of profits with the City having to pay Mjayeli's costs. Mjayeli is still to prove this loss. The loss is estimated for R1 million

#### Provision for Damages Claim

A claim for damages was instituted by the Plaintiff as a result of the construction of the Grayston fly-over for loss of income. The total claim was R10,000,000.00 plus interest of R10,000,000.00 and is not insured. SCA has ruled against the City on the matter of whether the construction amounted to a diversion.

Management has estimated the provision, however there is uncertainty as to when the liability will be settled.

#### Transitional provisions



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### 24. RETIREMENT BENEFIT OBLIGATION

#### 24.1 Post retirement liabilities

Post-Retirement Medical Aid Plan	(1 103 327)	(1 240 425)
Post-Retirement Housing Subsidy Plan	(301)	(238)
Retirement Gratuity Plan	(150 827)	(163 947)
	<b>(1 254 455)</b>	<b>(1 404 610)</b>

# City of Johannesburg Metropolitan Municipality

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

#### 24.1.1 Post retirement medical aid plan

City of Johannesburg Metropolitan Municipality has obligations to subsidise medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Post-retirement medical aid subsidies are provided to pensioners, in the service of the CJMM as at 1 January 2001, and employees 50 years and older on 1 July 2003 whilst contributory members to either LA Health or Key Health medical schemes. The subsidy remains payable only for as long as members remain contributory members to these medical schemes.

#### Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	1 103 327	1 240 425
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#### Movements for the year

Opening balance	1 240 425	1 241 051
Benefits paid	(100 369)	(99 177)
Net expense recognised in the statement of financial performance	(36 728)	98 551
	<b>1 103 328</b>	<b>1 240 425</b>

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

Current service cost	329	2 924
Interest cost	100 372	106 157
Actuarial gains	(137 429)	(10 530)
	<b>(36 728)</b>	<b>98 551</b>

#### Key assumptions used

The principal actuarial assumptions used were as follows:

Discount rates used	8,87 %	8,42 %
Expected increase in salaries	7,51 %	7,61 %

# City of Johannesburg Metropolitan Municipality

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

Other assumptions.

Age of spouse	-	Husbands five years older than wives.
Mortality of in-service members	-	In accordance with the SA 85-90 (Light) ultimate table (rated down 3 years for females).
Mortality of pensioners	-	In accordance with the PA(90) ultimate male and female tables.

#### Sensitivity analysis

##### Discount Rate

	-1%	0%	1%
Liability	1 198 653	1 103 327	1 020 997
Percentage change	8%	0%	-8,17%
	-	-	-

##### Benefit inflation

	-1%	0%	1%
Liability	1 060 453	1 103 327	1 136 732
Percentage change	-8,29	0	9,55%

#### 24.1.2 Post retirement housing subsidy plan

The City of Johannesburg Metropolitan Municipality provides housing subsidies in respect of certain qualifying staff members. In the event that the housing loan that the subsidy related to is not fully repaid at retirement date, the subsidy will continue into the members' retirement. The subsidy amount is based on the subsidy received at the date of valuation. The subsidy amount is assumed to remain constant and to continue for a period of 10 years after retirement.

The above liability is unfunded. However, City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City of Johannesburg Metropolitan Municipality who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the City of Johannesburg Metropolitan Municipality was established. The amount was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the company may claim benefit payments made. This loan does not constitute a plan asset and in terms of GRAP 25 cannot be offset against the liability. It has however been included in the assets of the City of Johannesburg Metropolitan Municipality.

#### Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	301	238
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The fair value of plan assets includes:

#### Movements for the year

Opening balance	238	351
Benefits paid	(85)	(77)
Net Income/(expense) recognised in the statement of financial performance	148	(36)
	<b>301</b>	<b>238</b>

# City of Johannesburg Metropolitan Municipality

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

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

Interest cost	18	18
Actuarial gains	130	(54)
	<b>148</b>	<b>(36)</b>

#### Key assumptions used

Assumptions used for the valuation .

Discount rates used	8,87 %	8,42 %
Expected increase in salaries	7,51 %	7,11 %

#### Sensitivity analysis

##### Discount rate

	-1%	0%	1%
Liability	306	301	296
Percentage change	2,10%	0	-1,26%

##### Benefit inflation

	-1%	0%	1%
Liability	296	238	306
Percentage change	-1,68%	0	2,10%

#### 24.1.3 Post retirement gratuity plan

City of Johannesburg Metropolitan Municipality provides gratuities on retirement or prior death in respect of certain qualifying staff members who have service with the City of Johannesburg Metropolitan Municipality when they were not members of one of the retirement funds and who meet certain service requirements in terms of City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on 1 month's salary per year of non-retirement funding service.

The above liability is unfunded. However, City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City of Johannesburg Metropolitan Municipality who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established. This amount was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the company may claim benefit payments made. This loan does not constitute a plan asset and in terms of GRAP 25 cannot be offset against the liability. It has however been included in the assets of the City of Johannesburg Metropolitan Municipality.

#### Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	150 827	163 947
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# City of Johannesburg Metropolitan Municipality

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

#### Movements for the year

Opening balance	163 947	190 546
Benefits paid	(11 042)	(15 807)
Net (expense)/Income recognised in the statement of financial performance	(2 078)	(10 792)
	<b>150 827</b>	<b>163 947</b>

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

Interest cost	13 029	16 206
Actuarial (gains) losses	(15 107)	(26 998)
	<b>(2 078)</b>	<b>(10 792)</b>

#### Key assumptions used

Assumptions used on last valuation on .

The principal actuarial assumptions used were as follows:

Discount rates used	8,87 %	8,42 %
Expected increase in salaries	7,51 %	7,11 %

#### Sensitivity analysis

##### Discount rate

	-1%	0%	1%
Liability	162 242	150 969	140 913
Percentage change	7,81%	0	-6,92%

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

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Table 7.2 summarises the results of this analysis on the sum of the Current-service and Interest Costs for the year ending 30 June 2016.

Table 7.2: Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2016

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

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### 24. RETIREMENT BENEFIT OBLIGATION (continued)

CJMM and its ME's provide post-employment benefits to all their permanent employees through defined contribution funds. The following employee contributions have been made to the defined contribution plans.

City of Johannesburg Pension Fund	43 050	42 576
eJoburg Retirement Fund	172 714	156 340
Municipal Councillors pension Fund	10 914	10 467
National Fund for Municipal Workers	784	108
Sandton Provident Fund	291	-
Municipal Employees Gratuity Fund	10 197	10 124
	<b>237 950</b>	<b>219 615</b>

The following employee contributions have been made to the multi-employer plans.

Joint Municipal Pension Fund	1 064	1 107
Municipal Employees Pension Fund	4 149	4 021
	<b>5 213</b>	<b>5 128</b>

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>25. DEFERRED INCOME</b>		
<b>Bond tap</b>		
Balance unspent at beginning of year	45 637	48 879
Current year (BRT points system)	4 298	-
Conditions met - transferred to revenue	(3 591)	(3 242)
<b>Conditions still to be met - transferred to liabilities</b>	<b>46 344</b>	<b>45 637</b>

The Bond tap is a Bond issued into the life of an existing Bond. The Tap was issued at a premium on the prevailing interest rate at the time of the Tap. The premium is amortised over the maturity of the Bond and released to interest income on an annual basis.

The tap was issued on 9 December 2008, due to mature on 5 June 2023. The tap was issued at a premium of R58,038,692, at an interest rate of 12.21% per annum. The notional amount was R468,000,000 and the issue price was R526,038,692.

<b>Total deferred income</b>	<b>46 344</b>	<b>45 637</b>
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# City of Johannesburg Metropolitan Municipality

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### 26. OTHER FINANCIAL LIABILITIES AT FAIR VALUE

During the financial year 2010/2011, CJMM entered into an interest rate swap by exchanging the Nedbank R1 billion 3 months JIBAR rate + 280 bsp for an 11.66% fixed interest rate.

#### Swap Details

Trade Date : 30 March 2011  
Settlement Date: 29 March 2018  
Nominal Amount: R 1 billion  
Fixed Rate: 11.66%  
Payable: Semi- annual

<b>Opening balance</b>	45 217	54 113
Fair value movement-SWAP	(23 083)	(8 896)
<b>Closing balance</b>	<b>22 134</b>	<b>45 217</b>
Current liability	4 056	6 856
Non-Current liability	18 078	38 361
	<b>22 134</b>	<b>45 217</b>

### 27. CONSUMER DEPOSITS

#### Non Current portion of Consumer deposits

Other deposits	15 816	17 288
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Consumer deposits relate largely to deposits held in the JPC Portfolio Account (2016 R 14 193 316 and 2015 R13 954 192). The other balance relates to deposits held by Community Development and the Housing Department. All consumer deposits are non-current in nature.

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

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### 28. FINANCIAL LIABILITIES BY CATEGORY

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

#### 2016

	Financial liabilities at amortised cost	Fair value through profit or loss	Fair value through surplus or deficit - designated	Total
<b>Current Liabilities</b>				
Loans and borrowings	593 487	-	-	593 487
Finance lease obligations	51 778	-	-	51 778
Trade and other payables	10 962 026	-	-	10 962 026
<b>Non-Current Liabilities</b>				
Loans and borrowings	17 458 698	-	-	17 458 698
Finance lease obligations	194 971	-	-	194 971
Consumer deposits	15 816	-	-	15 816
	<b>29 276 776</b>	-	-	<b>29 276 776</b>

#### 2015

	Financial liabilities at amortised cost	Fair value through profit or loss	Fair value through surplus or deficit - designated	Total
<b>Current Liabilities</b>				
Loans and borrowings	1 573 418	-	-	1 573 418
Finance lease obligations	102 830	-	-	102 830
Trade and other payables	11 321 448	-	-	11 321 448
<b>Non-Current Liabilities</b>				
Loans and borrowings	14 093 244	-	-	14 093 244
Finance lease obligations	237 899	-	-	237 899
Consumer deposits	17 288	-	-	17 288
	<b>27 346 127</b>	-	-	<b>27 346 127</b>

# City of Johannesburg Metropolitan Municipality

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Figures in Rand thousand	2016	2015
<b>29. PROPERTY RATES</b>		
<b>Rates received</b>		
Residential	2 850 375	2 639 236
Commercial	5 114 128	4 870 740
State	173 556	164 955
	<b>8 138 059</b>	<b>7 674 931</b>
<b>Valuations</b>		
Property rate valuation	945 236 868	919 592 501
<b>30. RENDERING OF SERVICES</b>		
Other service charges	117 932	115 746
BRT Revenue	108 718	79 927
Surcharges : Electricity	151 582	134 686
Surcharges : Refuse	4 180	3 844
Surcharges : Water	47 015	46 637
	<b>429 427</b>	<b>380 840</b>

# City of Johannesburg Metropolitan Municipality

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### 31. GOVERNMENT GRANTS AND SUBSIDIES

Provincial grants : Capital projects	116 541	137 123
Urban settlements development grant	1 386 716	1 359 400
Financial management grant	1 050	1 250
Provincial grants : Top structure of houses	304 531	328 077
Provincial grants : Operating projects	12 619	10 905
Public Transport Network Grant (Capital Projects)	863 712	925 572
Neighbourhood development partnership grant	70 927	79 800
Expanded Public Works Programme (EPWP)	33 363	42 864
Provincial grant : Jozi Ihlomihle (Hiv/Aids)	19 709	19 889
Public Transport Network operations Grant	245 257	520 708
Ambulance subsidy	111 416	105 809
Equitable share and fuel levy	5 331 848	4 853 451
Provincial health subsidies	110 043	104 505
	<b>8 607 732</b>	<b>8 489 353</b>

#### Provincial grants : Capital projects

Balance unspent at beginning of year	167 788	151 796
Current year receipts	109 904	59 573
Previous years AUC - Capitalised	-	(506)
Transfers	-	44 454
Adjustment - Debtors	5 188	49 594
Conditions met - transferred to revenue	(116 541)	(137 123)
<b>Conditions still to be met - transferred to liabilities</b>	<b>166 339</b>	<b>167 788</b>

Conditions still to be met - remain liabilities (see note 22)

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>31. GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>Urban settlements development grant</b>		
Current year receipts	1 731 221	1 695 487
transfer to EPWP	-	(9 680)
Transferred to MEs	(249 520)	(326 407)
Conditions met - transferred to revenue	(1 386 716)	(1 359 400)
<b>Conditions still to be met - transferred to liabilities</b>	<b>94 985</b>	<b>-</b>

This grant is made available to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily for the benefit of poor households. The Urban Settlement Development Grant contributes towards the achievement of sustainable human settlements and improved quality of household life by implementing infrastructure development projects that work towards the realisation of adequate housing and improved quality environments and a functional residential property market. The infrastructure development projects includes roads, bridges, water supply network, sanitation services, electrical reticulation, social and recreational services, cemeteries, markets as well as release of well located land.

# City of Johannesburg Metropolitan Municipality

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Figures in Rand thousand 2016 2015

### 31. GOVERNMENT GRANTS AND SUBSIDIES (continued)

#### Financial management grant

Current year receipts	1 050	1 250
Conditions met - transferred to revenue	(1 050)	(1 250)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

The grant was to target training and capacitation of the staff in the Budget and Treasury offices. It targets systems for the implementation of the MFMA reporting requirements. The grant is mainly used to employ interns in the Finance Department and to fund the MFMA minimum competency level training.

#### Provincial grants : Top structure of houses

Balance unspent at beginning of year	108	209 827
Current year receipts	378 195	-
Adjustments	-	(34 774)
Transfers to debtors	(73 772)	153 132
Conditions met - transferred to revenue	(304 531)	(328 077)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>108</b>

Conditions still to be met - remain liabilities (see note 22)

#### Provincial grants : Operating projects

Balance unspent at beginning of year	9 383	7 696
Current year receipts	36 149	10 690
Paid Back	(1 003)	-
Transfers to MEs	(7 700)	2 902
Adjustments	-	(1 000)
Conditions met - transferred to revenue	(12 619)	(10 905)
<b>Conditions still to be met - transferred to liabilities</b>	<b>24 210</b>	<b>9 383</b>

Conditions still to be met - remain liabilities (see note 22)

To transform urban and rural community library infrastructure, facilities and services through a recapitalised programme at provincial level in support of local government and national initiatives. The funding is intended to address backlogs and disparities in ongoing provision and maintenance of community library services across municipalities and enable provincial departments to provide strategic guidance and alignment with national priorities.

#### Public Transport Network Grant (Capital Projects)

Balance unspent at beginning of year	1 819	398 840
Current year receipts	864 368	553 571
Grants paid back	-	(25 020)
Conditions met - transferred to revenue	(863 712)	(925 572)
<b>Conditions still to be met - transferred to liabilities</b>	<b>2 475</b>	<b>1 819</b>

Conditions still to be met - remain liabilities (see note 22)

This grant is provided to finance 2010 Public Transport System.

# City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand thousand 2016 2015

### 31. GOVERNMENT GRANTS AND SUBSIDIES (continued)

#### Neighbourhood development partnership grant

Balance unspent at beginning of year	19 158	9 849
Current year receipts	109 327	98 958
Grants paid back	-	(9 849)
Conditions met - transferred to revenue	(70 927)	(79 800)
<b>Conditions still to be met - transferred to liabilities</b>	<b>57 558</b>	<b>19 158</b>

Conditions still to be met - remain liabilities (see note 22)

The purpose of this grant is to stimulate and accelerate private sector investment in poor and underserved neighbourhoods. It is an Infrastructure Development grant focusing on township development, for the purpose of attracting private investment and for Government agencies to be able to provide basics services.

#### Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	-	19 033
Current year receipts	38 447	36 492
Transferred to MOEs	(4 174)	-
Adjustments	-	(3 419)
Transfers	-	(9 242)
Conditions met - transferred to revenue	(33 363)	(42 864)
<b>Conditions still to be met - transferred to liabilities</b>	<b>910</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 22)

The Grant assists in providing an important avenue for labour absorption and aids transfers of income to poor households. It uses expenditure on goods and services to create work opportunities for the unemployed. EPWP Projects employ workers on a temporary or on-going basis either by government, by contractors, or by other non-governmental organisations under the Ministerial Conditions of Employment for the EPWP or learnership employment conditions.

#### Provincial grant : Jozi Ihlomihle (Hiv/Aids)

Balance unspent at beginning of year	95	696
Current year receipts	19 614	19 288
Conditions met - transferred to revenue	(19 709)	(19 889)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>95</b>

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

Figures in Rand thousand	2016	2015
<b>31. GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>Public Transport Network Grant (Operational projects)</b>		
Balance unspent at beginning of year	3 502	12 252
Current year receipts	287 001	512 000
	-	(42)
Conditions met - transferred to revenue	(245 257)	(520 708)
<b>Conditions still to be met - transferred to liabilities</b>	<b>45 246</b>	<b>3 502</b>
<b>Ambulance subsidy</b>		
Current year receipts	111 416	105 809
Conditions met - transferred to revenue	(111 416)	(105 809)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>
<p>Gauteng province pays an annual grant to EMS for providing an ambulance service for the City of Johannesburg. This grant covers less than half of the cost of the vehicles, the manning of the vehicles and all other costs associated with providing the service by the City.</p>		
<b>Equitable share and fuel levy</b>		
Current year receipts	5 000 887	4 853 451
Transfers to debtors	330 961	-
Conditions met - transferred to revenue	(5 331 848)	(4 853 451)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>
<p>Municipal Equitable Share is the share of Local Government Sphere's share of revenue raised nationally. The equitable share allocation is a subsidy received from National Treasury and is mainly for RSC levies replacement, special support for councillors' remuneration, ward committees and funding for free basic services (Basic Social Services Package) for the registered indigent households.</p>		
<b>Provincial health subsidies</b>		
Current year receipts	110 043	104 505
Conditions met - transferred to revenue	(110 043)	(104 505)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>
<p>The Municipality renders health services on behalf of the Provincial Government and is refunded approximately 20% of total expenditure incurred. These funds have been used exclusively to fund clinic services. The conditions of the grant have been met. There was no delay or with holding of the subsidy.</p>		
<b>32. OTHER REVENUE</b>		
Internal recoveries - Core	(1)	-
Internal recoveries - ME's	458 764	390 538
Other revenue	556 996	391 917
Other subsidies	500	-
Recovery of insurance	2 451	1 526
Recovery of legal costs	1 918	1 327
Training revenue	18 089	16 944
	<b>1 038 717</b>	<b>802 252</b>



# City of Johannesburg Metropolitan Municipality

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Figures in Rand thousand	2016	2015
<b>33. EMPLOYEE RELATED COSTS</b>		
Employee related costs : Salaries and wages	3 685 518	3 398 819
Employee related costs : Pension contributions	522 784	524 701
Employee related costs : Medical aid contributions	309 216	283 267
Employee related costs : Skills development levy	43 867	40 396
Housing benefits and allowances	32 218	22 616
Overtime payments	81 572	71 505
Bonus	214 627	189 867
Travel, motor car, accommodation, subsistence and other allowances	277 006	265 197
Post Retirement Benefits	(11 370)	87 546
	<b>5 155 438</b>	<b>4 883 914</b>
<b>Remuneration of the City Manager</b>		
Annual Remuneration	2 705	2 562
Car Allowance	128	128
Contributions to UIF, Medical and Pension Funds	2	2
	<b>2 835</b>	<b>2 692</b>
<b>Remuneration of the Group Head : Risk Assurance Services</b>		
Annual Remuneration	1 653	1 551
Car Allowance	288	287
Performance Bonuses	-	68
Contributions to UIF, Medical and Pension Funds	48	44
Unpaid absence	-	7
	<b>1 989</b>	<b>1 957</b>

# City of Johannesburg Metropolitan Municipality

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### 33. EMPLOYEE RELATED COSTS (continued)

#### Remuneration of the Group Head : Strategy, Policy Coordination and Relations

Annual Remuneration	995	1 269
Car Allowance	135	108
Performance Bonuses	-	81
Contributions to UIF, Medical and Pension Funds	1	121
	<b>1 131</b>	<b>1 579</b>

#### Remuneration of the Group Head : Communication and Tourism

Annual Remuneration	1 632	1 517
Car Allowance	-	85
Performance Bonuses	-	48
Contributions to UIF, Medical and Pension Funds	2	52
Unpaid absense	-	61
	<b>1 634</b>	<b>1 763</b>

#### Remuneration of the Group Head : Legal and Contracts

Annual Remuneration	1 145	908
Car Allowance	87	87
Performance Bonuses	-	40
Contributions to UIF, Medical and Pension Funds	174	134
	<b>1 406</b>	<b>1 169</b>

#### Remuneration of the Group : Chief Financial Officer

Annual Remuneration	2 640	2 500
Car Allowance	144	144
Contributions to UIF, Medical and Pension Funds	2	2
	<b>2 786</b>	<b>2 646</b>

#### Remuneration of the Executive Director : Economic Development

Annual Remuneration	2 227	2 115
Contributions to UIF, Medical and Pension Funds	2	2
	<b>2 229</b>	<b>2 117</b>

#### Remuneration of the Executive Director : Community Development

Annual Remuneration	1 599	1 514
Car Allowance	103	103
Performance Bonuses	-	59
Contributions to UIF, Medical and Pension Funds	160	152
	<b>1 862</b>	<b>1 828</b>

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Figures in Rand thousand	2016	2015
<b>33. EMPLOYEE RELATED COSTS (continued)</b>		
<b>Remuneration of the Executive Director : Development Planning and Urban Development</b>		
Annual Remuneration	2 020	1 913
Car Allowance	144	144
Performance Bonuses	-	79
Contributions to UIF, Medical and Pension Funds	121	113
Eminence/Premiums Allowance	180	180
	<b>2 465</b>	<b>2 429</b>
<b>Remuneration of the Executive Director : EISD</b>		
Annual Remuneration	1 759	1 666
Car Allowance	97	97
Performance Bonuses	-	49
Contributions to UIF, Medical and Pension Funds	48	45
	<b>1 904</b>	<b>1 857</b>
<b>Remuneration of the Executive Director : Housing</b>		
Annual Remuneration	1 439	1 362
Car Allowance	96	96
Performance Bonuses	-	52
Contributions to UIF, Medical and Pension Funds	143	135
	<b>1 678</b>	<b>1 645</b>
<b>Remuneration of the Executive Director : Transportation</b>		
Annual Remuneration	1 887	1 789
Car Allowance	73	73
Performance Bonuses	-	76
Contributions to UIF, Medical and Pension Funds	285	270
	<b>2 245</b>	<b>2 208</b>
<b>Remuneration of the Executive Director : Health</b>		
Annual Remuneration	1 965	1 861
Car Allowance	108	108
Performance Bonuses	-	129
Contributions to UIF, Medical and Pension Funds	2	2
	<b>2 075</b>	<b>2 100</b>
<b>Remuneration of the Executive Director : Corporate Services</b>		
Annual Remuneration	1 576	230
Performance Bonuses	-	72
Contributions to UIF, Medical and Pension Funds	2	20
Final leave payment	-	106
	<b>1 578</b>	<b>428</b>

The Executive Director resigned on 30 June 2014 and the current appointment was effective from 01 May 2015.

# City of Johannesburg Metropolitan Municipality

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### 33. EMPLOYEE RELATED COSTS (continued)

#### Remuneration of the Executive Director : Office of the City Manager

Annual Remuneration	1 413	1 344
Performance Bonuses	-	82
Contributions to UIF, Medical and Pension Funds	73	68
	<b>1 486</b>	<b>1 494</b>

#### Remuneration of the Group Head : Urban Management and Citizen Relationship Management

Annual Remuneration	843	197
Car Allowance	50	21
Performance Bonuses	-	77
Contributions to UIF, Medical and Pension Funds	58	36
Final Leave payment	-	51
IEC Payment	21	-
	<b>972</b>	<b>382</b>

The Executive Director resigned 31 August 2014

#### Remuneration of the Group Head : Governance

Annual Remuneration	1 435	1 355
Car Allowance	96	96
Performance Bonuses	-	27
Contributions to UIF, Medical and Pension Funds	81	75
Unpaid absence	-	5
	<b>1 612</b>	<b>1 558</b>

#### Remuneration of the Chief Operations Officer

Annual Remuneration	2 567	2 433
Car Allowance	144	144
Performance Bonuses	177	-
Contributions to UIF, Medical and Pension Funds	145	135
	<b>3 033</b>	<b>2 712</b>

#### Remuneration of the Secretary of Council

Annual Remuneration	1 681	1 592
Car Allowance	128	128
Contributions to UIF, Medical and Pension Funds	95	88
	<b>1 904</b>	<b>1 808</b>

#### Remuneration of the Executive Director : Public Safety

Annual Remuneration	1 653	1 564
Car Allowance	128	128
Contributions to UIF, Medical and Pension Funds	2	2
	<b>1 783</b>	<b>1 694</b>

The ED of Public Safety's appointment was effective March 2014

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## Notes to the Annual Financial Statements

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### 33. EMPLOYEE RELATED COSTS (continued)

#### Remuneration of the Executive Director : Social Development

Annual Remuneration	1 332	1 258
Car Allowance	104	104
Contributions to UIF, Medical and Pension Funds	73	71
	<b>1 509</b>	<b>1 433</b>

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

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### 34. REMUNERATION OF COUNCILLORS

Executive Mayor	1 246	1 226
Mayoral Committee Members	11 568	9 888
Speaker	1 027	1 010
Councillors	89 347	89 753
Councillors' pension contribution	11 768	10 313
Chairpersons	18 931	15 309
	<b>133 887</b>	<b>127 499</b>

#### Remuneration of the Executive Mayor - Parks Tau

Annual Remuneration	959	908
Car Allowance	128	128
Contributions to UIF, Medical and Pension Funds	155	148
Cell Allowance	42	42
	<b>1 284</b>	<b>1 226</b>

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are employed on a full-time basis by the Council.

Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor and Speaker have use of a Council owned vehicle for official duties.

The Executive Mayor has four full-time bodyguards. The Speaker has two full-time bodyguards.

# City of Johannesburg Metropolitan Municipality

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## Notes to the Annual Financial Statements

Figures in Rand thousand 2016 2015

### 35. DEPRECIATION AND AMORTISATION

Property, plant and equipment	1 623 905	1 457 916
Intangible assets	190 866	184 831
	<b>1 814 771</b>	<b>1 642 747</b>

### 36. IMPAIRMENT LOSSES

#### Impairments

Pikitup Johannesburg (Pty) Ltd The Pikitup Johannesburg (Pty) Ltd loan was fully impaired due to the technical insolvency that the entity was facing at year end. For a more detailed description of this impairment, refer to Note 4	(104 982)	(124 036)
Johannesburg Metro Bus The Johannesburg Metro Bus company is technically insolvent and has liquidity challenges. The entity has put in a place a turn around strategy aimed to improve the liquidity problem in the long term. The current liquidity problem has led to the impairment of the current portion of the loan.	(329 661)	(21 609)
	<b>(434 643)</b>	<b>(145 645)</b>

### 37. ALLOWANCE FOR IMPAIRMENT OF CURRENT RECEIVABLES

Allowance for Impairment - Trade and Other Receivables - Fines	140 082	303 194
Allowance for Impairment - Consumer Debtors	606 204	960 178
Allowance for Impairment - Trade and Other Receivables - Other	59 064	82 079
	<b>805 350</b>	<b>1 345 451</b>

Allowance for Trade and other receivables includes the impairment Traffic fines and sundry debtors.

### 38. CONTRACTED SERVICES

Fleet Services	55 588	52 306
Information Technology Services	260 497	274 445
Operating Leases	206 765	143 269
Other Contractors	23 095	21 796
Specialist Services	1 157 325	1 385 581
	<b>1 703 270</b>	<b>1 877 397</b>

Refer to note 43 for future operating lease commitments.

# City of Johannesburg Metropolitan Municipality

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Figures in Rand thousand	2016	2015
<b>39. GRANTS AND SUBSIDIES PAID</b>		
<b>Grants paid to ME's</b>		
City of Johannesburg Property Company (Pty) Ltd	340 630	-
Johannesburg City Parks	711 957	644 389
Johannesburg Development Agency (Pty) Ltd	22 382	26 739
Johannesburg Metropolitan Bus Services (Pty) Ltd	432 693	400 637
Johannesburg Roads Agency (Pty) Ltd	746 409	761 067
Johannesburg Social Housing Company (Pty) Ltd	19 952	19 970
Pikitup Johannesburg (Pty) Ltd	728 197	592 918
The Johannesburg Civic Theatre (Pty) Ltd	73 502	68 823
	<b>3 075 722</b>	<b>2 514 543</b>
<b>Other subsidies</b>		
Grant paid : Housing top structures	322 984	439 197
Grant paid : Other	153 433	129 874
	<b>476 417</b>	<b>569 071</b>
	<b>3 552 139</b>	<b>3 083 614</b>

Grants paid to MEs are utilised to fund capital and operational expenditure.

The grants paid are based on operating and capital budgeted amounts as approved by Council.

### 40. GENERAL EXPENSES

Advertising	113 220	43 403
Auditors remuneration	19 723	21 296
Bank charges	78 511	73 747
Consulting and professional fees	80 372	60 221
Consumables/Inventory expensed	20 768	18 331
Debt collection	206 406	161 137
Hire	17 662	19 672
Insurance	135 598	134 647
Conferences and seminars	24 060	19 418
Marketing	93 369	24 887
Printing and stationery	127 623	149 516
Security (Guarding of municipal property)	211 893	187 021
Software expenses	175 656	50 729
Staff welfare	-	16 876
Subscriptions and membership fees	17 533	17 649
Telephone and fax	54 141	51 057
Training	31 178	24 367
Travel - local	13 117	13 687
Travel - overseas	24 679	18 346
Utilities	488 210	496 303
Lease rentals on operating lease	57 587	247 075
ME - charges	15 187	3 122
Incident management fund	41 273	36 216
Other expenses	627 602	489 023
	<b>2 675 368</b>	<b>2 377 746</b>

Included in other expenses are guarantee fees relating to the COJ2 bond which is held at amortised cost.

Guarantee Fees	3 655	9 539
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# City of Johannesburg Metropolitan Municipality

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<b>41. FAIR VALUE ADJUSTMENTS</b>		
Other financial assets		
• Fair value movement on the sinking fund	365 504	259 765
• Cash flow hedge (Ineffective portion)	20 283	-
	<b>385 787</b>	<b>259 765</b>
<b>42. CASH GENERATED FROM OPERATIONS</b>		
Surplus	1 909 426	2 406 578
<b>Adjustments for:</b>		
Depreciation and amortisation	1 814 771	1 642 747
Public contributions, Donated and contributed property	(194 132)	(322 379)
Fair value adjustments	(385 787)	(259 765)
Reversal of Impairment	(31 315)	-
Finance costs: liabilities from MEs	7 695	7 138
Allowance for impairment of current receivables	805 350	1 323 689
Impairment in MOE investments	434 643	142 664
loss/gain on sale of Assets	33 209	11 129
Retirement benefits net expenses	(38 658)	87 723
<b>Changes in working capital:</b>		
Inventories	(60 103)	53 747
Trade and other receivables	(624 830)	(570 116)
Consumer debtors	(71 555)	(67 592)
Adjustment of impairment of current receivable	(805 350)	(1 323 689)
Trade and other payables	(419 461)	1 337 779
VAT	112 592	143 735
Unspent conditional grants and receipts	189 701	(603 487)
Increase/(Decrease) in deferred income	707	(3 242)
Increase/(Decrease) in Provision	15 000	(19 492)
Increase/(Decrease) in Consumer deposits	(1 472)	(8 032)
	<b>2 690 431</b>	<b>3 979 135</b>

# City of Johannesburg Metropolitan Municipality

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### 43. COMMITMENTS

#### Commitments in respect of capital expenditure:

##### Contracted for

• Capital Commitments	3 072 597	4 859 949
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

#### Operating leases - as lessee (Fleet)

##### Minimum lease payments due

- within one year	106 665	92 186
- in second to fifth year inclusive	46 509	90 361
	<b>153 174</b>	<b>182 547</b>

#### Operating leases – as lessee (Buildings)

##### Minimum lease payments due

- within one year	30 100	20 473
- in second to fifth year inclusive	2 187	6 280
- later than five years	425	3 354
	<b>32 712</b>	<b>30 107</b>

Lease payments made throughout the year by respective Departments are included in the Statement of Financial Performance under General Expenses, refer to Note 40.

Operating lease smoothing and calculations are based on the contracts relating to operating leases of buildings held in the various Departments of the CJMM. The average leasing term for the CJMM is 4 years and the average escalation rate is 9%. Restrictions imposed on lease agreements are limited to those contained in individual contracts. A complete register of operating leases, as well as all the contracts are maintained by facilities management.

#### Operating leases – Land (Soccer City)

##### Minimum lease payments due

- within one year	75	75
- in second to fifth year inclusive	299	299
- later than five years	6 495	6 570
	<b>6 869</b>	<b>6 944</b>

# City of Johannesburg Metropolitan Municipality

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### 44. CONTINGENCIES

#### Controlling entity

#### Uninsured claims & litigations

1. Five plaintiffs brought action against the Council in the 1990's, arising from major road and other construction works at the Empire Interchange, around the suburbs of Braamfontein, Milpark, Cottesloe, Melville, Parktown West, Emmarentia and Richmond. They allegedly suffered damages as a result of the Council having closed the road. (This claim was originally for R4 146 583 the majority of which was for loss of earnings). The approximate amount that the plaintiff could now claim would be in the order of approximately R500 000.
2. Claim for damages for R10 000 000 in respect of relocation of homeless people. The plaintiff sued the City of Johannesburg allegedly because the City of Johannesburg relocated homeless people onto the defendant's property without its consent, making it impossible for him to develop the property.
3. Compliance with the Public Prosecutor findings in the "broken promises" report of 18 December 2014. Purchase of Property R5 000 000.
4. The plaintiff instituted action against the City of Johannesburg for wrongful termination of contract. It sought relief two fold, to uphold the contract, alternatively damages in the sum of R33 150 639. The matter was referred to arbitration; the plaintiff is however refusing to sign the arbitration agreement. The City is prepared to proceed with the arbitration however the plaintiff has not taken any further steps.
5. The City of Johannesburg appointed a service provider (a joint venture) to construct 1000 low cost RDP houses. The one partner to the JV subsequently ceded its rights and obligations in terms of the JV agreement to the other partner, which the City of Johannesburg was not party to. The latter partner then only concluded 385 foundations. After various opportunities to remedy the defects, the City terminated the contract. A dispute was declared and the matter referred to arbitration in terms of the JBCC agreement for the sum of R29 406 592. The service provider has applied for a trial date which was on 30 January 2015, however the case was further postponed to a date not yet known. The City of Johannesburg is processing the drafting of a discovery affidavit.
6. Claim for breach in the amount of R6 289 510 for allegedly failing to provide sufficient electricity for development after rezoning a property. Claim is defended on the basis that sufficient electricity is available and Plaintiff was aware of available supply.
7. Claim against the City of Johannesburg for the continuation of monthly post-retirement medical aid payments to employees of the city who are medical aid members. Estimated amount of R350 000 000. This matter arise from the City of Johannesburg withdrawing the post-retirement medical aid contributions in 2003, currently the matter is to proceed for a trial which has not been announced yet.
8. Claim for a refund against the City Of Johannesburg by Bombela Civil Joint Venture of R 5 500 000 in which the amount also includes legal cost.
9. The amount of R 7 435 092 relates to various court cases against the city of Johannesburg which were aggregated together as individually they are immaterial .

# City of Johannesburg Metropolitan Municipality

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### 44. CONTINGENCIES (continued)

10. Claim for R6 000 000 against the COJ, which relates to JCL Project. The matter was set down for a provisional sentence however has been postponed.
11. The claim of R 17 000 000 relates to alleged damages for loss of amenity due to COJ approving certain land uses adjacent to the plaintiff's property.
12. Claim for a reversal of R1 000 000 in respect of adjustment in terms of rates made to the Valuation Roll.
13. An arbitration for a claim against the City of R13 000 000 plus interest where the City awarded a contract to the claimant in or about June 2010 for the provision of professional lead consulting/project management services for the implementation of a fully integrated mixed housing development. The contract expired in June 2013. The contractor is claiming for the provision of professional services rendered to the City. The parties are currently engaged in settlement negotiations
14. Claim against the COJ for an amount of R5 200 000 relating to an overrun of costs emanating from a contract for the upgrade of the Johannesburg Central Library
15. Claim of R3 337 701 and R6 460 850, which relates to claims based on SAPOA judgement.
16. Action against the COJ to repay an amount of R4 581 459 which money was irregular in terms of Supply Chain Management process but was ratified by council. The amount was spent in the launching of the Soweto theatre.
17. Claim of R 17 830 000 relating to loss of profit as a result of alleged diversion/permanent closure of a road next to the plaintiff's filling station. The City cited with the Johannesburg Development Agency and Johannesburg Road Agency regarding this matter. The plaintiff removed the matter from the roll in January 2014 and a new date was set for 02 March 2016. The matter was removed from the roll again therefore the City awaits a new trial date.
18. Claim for approximately R295 600 000 for COJ and City Power to be contractually obliged to continue to pay monthly medical aid contributions the two accredited medical scheme providers which are Key Health and LA Health. This matter arose as a result of the COJ withdrawing post-retirement medical aid contributions in 2003. The matter was dormant until late 2014. The set down date is scheduled for 12 September 2016.
19. Claim for R 1 401 738 for monies to be paid by City for tickets. The plaintiff is a ticket vendor hence claiming the loss of business. The City does not deny the money for the ticket but has an issue with the claim for loss of business by the plaintiff.
20. The claim of R19 500 000 relates to damages suffered by plaintiff arising from the COJ not following proper procurement process contract between second defend. The City is required to prove the existence of such contract. The City is awaiting a copy of such contract from Group Head: Revenue.
21. Claim amounting to approximately R3 000 000 for damages arising out of work done but not paid for. Negotiations are on-going.
22. The claim relates to summons issued of R39 000 000 from Fleet Africa for services rendered by the service provider against the City. Parties are engaged in negotiations.
23. A claim for damages against the City where the Plaintiff alleges that when the City implemented Rea Vaya system in Soweto, they permanently closed caused highway or portions thereof and/or diverted traffic in so doing caused the plaintiff to suffer damages in the amount of R17 589 910.

### Contingent assets

1. Claim for R20 000 000 instituted by the COJ and Bus Operating Company and others against an attorney who misappropriated money to be used by the operators to invest in BOC.
2. Claim for R1 698 400 relating to summons issued against Graffiti Impact. The defendant has raised an issue that the City is not entitled to that money and has asked the court to declare that section of the By-Laws to be null and void. A consultation has been scheduled with the junior and senior counsel to prepare a replication. This may impact on the inner City regeneration fees.

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### 45. PRIOR PERIOD ERRORS

The correction of the error(s) results in the restatement of comparative figures as follows:

Statement of Financial Position	Note	As previously reported	Correction of errors	Restated
	R	R	R	R
CJMM - Trade and other receivables		4 146 256	(19 354)	4 126 902
CJMM - Finance Lease receivable		256 058	1 622	257 680
CJMM - Property, plant and equipment		33 233 412	58 291	33 291 703
CJMM - Consumer debtors		716 651	96 539	813 190
CJMM - Intangible Assets		500 913	(60 988)	439 925
CJMM - Loans to Municipal Entities		5 648 642	(2 981)	5 645 661
CJMM - Finance Lease Obligation		(340 729)	6 338	(334 391)
CJMM - Trade and other payables		(11 619 272)	(82 162)	(11 701 434)
CJMM - Obligations arising from conditional grants and receipts		(210 894)	6 982	(203 912)
CJMM - Provision		(99 987)	79 987	(20 000)
CJMM - Accumulated Surplus- 2014/15 Opening Balance	-	(23 799 901)	(36 533)	(23 836 434)
		<b>8 431 149</b>	<b>47 741</b>	<b>8 478 890</b>

### Statement of financial performance

Statement of financial performance	Note	As previously reported	Correction of errors	Restated
	R	R	R	R
CJMM - Property rates		(7 622 800)	(52 131)	(7 674 931)
CJMM - Rendering of Services		(96 195)	(427)	(96 622)
CJMM - Interest received		(1 077 784)	(24 802)	(1 102 586)
CJMM - Other revenue		(822 897)	20 645	(802 252)
CJMM - Depreciation and amortisation		1 667 941	(25 194)	1 642 747
CJMM - Rental of facilities and equipment		142 664	2 981	145 645
CJMM - Allowance for impairment of current receivables		1 323 689	21 762	1 345 451
CJMM - Contracted services		1 877 017	380	1 877 397
CJMM - Public contributions, Donated and contributed property		(322 379)	(978)	(323 357)
CJMM - General Expenses		2 693 664	(315 918)	2 377 746
CJMM - Loss/gain on disposal of PPE		11 129	10	11 139
CJMM - Finance Cost		1 647 786	(479)	1 647 307
CJMM - Traffic Fines		(8 815 763)	326 410	(8 489 353)
		<b>(9 393 928)</b>	<b>(47 741)</b>	<b>(9 441 669)</b>

The correction of the error(s) results in the restatement of comparative figures as follows:

Management provides explanations for prior period adjustments which are considered material

### Trade and Other Receivables

In the previous year National Treasury(NT) reduced the EPWP grant. Economic Development did not adjust their expenditure in respect of this grant resulting in overspending. Economic Development Then raised a debtor against NT without them acknowledging the debt.

### Property, plant and equipment, Intangible Assets and Depreciation

The error is due to Assets under Construction completed in prior years but only capitalised in the current year.

### Consumer debtors and Property rates

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### 45. PRIOR PERIOD ERRORS (continued)

The restatement of revenue, debtors and receivable impairment allowance is due to adjustment as a result of the Municipal Property Rates Act processes and requirements which were finalised in the current. This processes and requirements results in the consumers' accounts having to be corrected from the current year to previous years billing depending on the effective date.

#### **Trade and other payables and Provisions**

The error is due to a legal case which was concluded in the prior but not reclassified to creditors.

#### **Interest received and Other revenue**

Finance lease interest was previously classified as other income instead of interest income.

#### **Government grants and General expenses**

This relates to grants incorrectly recognised as revenue and expenditure instead of being recognised as transfers to Municipal Entites.

# City of Johannesburg Metropolitan Municipality

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### 46. RISK MANAGEMENT

#### Portfolio 1

##### Overview

Effective financial risk management is imperative to CJMM. The realisation of the CJMM's objectives toward service delivery depends on CJMM's sound management of financial risks which enable the City to anticipate and respond to changes in the market environment as well as making informed decisions under conditions of uncertainty.

The CJMM is exposed to the following financial risks from the use of financial instruments:

- Liquidity risk (including integrated cash flow management)
- Market risk.
- Credit/Counterparty risk

To ensure the execution of and compliance to overall risk management policies and guidelines in terms of exposure limits, concentration limits and volatility limits on financial assets and liabilities, CJMM plays a focal role in:

- The maintenance of sound liquidity levels such that optimal returns on surplus cash are realized and interest expenses minimized.
- Ensuring that CoJ's Credit rating is maintained or improved by ensuring that financial risk ratios fall within required limits.
- Ensuring sustainable financial viability of COJ by avoiding the occurrence of uncontrolled losses that could arise as a result of exposure in the financial markets with the overall aim of protecting CJMM's financial position.
- To provide Council with reasonable assurance that financial risks the CJMM is exposed to are identified and, to the best extent possible, mitigated and controlled.

The Treasury Unit identifies, quantifies and sets up control measures to mitigate financial risks in close co-operation with operating units. Treasury executes its responsibility in line with the approved Treasury and Assets and Liabilities Management (ALM) policies.

#### Financial Risk Management Framework

The Risk Management Framework serve to raise awareness, inform and guide the Group on its approved approach to risk management. The framework, which is reviewed on a continuous basis in line with best market practices, seeks to assist the Group in the effective identification, evaluation and control of financial risks that may impact upon the realization of corporate, mayoral and service delivery objectives and priorities that the Group has set itself to achieve.

Council, through the Assets and Liabilities Committee (ALCO), has overall responsibility for the establishment and oversight of the CJMM's risk management framework. ALCO, in this regard, is responsible for developing and monitoring the CJMM's financial risk management policies. ALCO reports regularly to the Mayoral Committee and Section 79 on its activities.

The CJMM's financial risk exposures are managed by the Treasury Unit. The CJMM's activities expose it to a variety of financial risks. The municipality's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the CJMM's financial performance. The group recognises that an effective risk management function is fundamental to its business. Risk awareness, control and compliance are embedded in Treasury's day-to-day activities.

The CJMM's Treasury unit reports its risk management activities to Mayoral, Council and ALCO on a regular basis. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the CJMM's activities.

#### Liquidity and Concentration Risk

Liquidity Risk, in this instance, refers to the risk that CJMM may not meet its periodic obligations with respect to its liabilities when they fall due. Management of liquidity risk is particularly important as it ensures that capital and operating expenditure is met. Treasury enters into liability obligations to bridge funding gaps arising from both capital and operational expenditure with the aim of ensuring that CJMM meets its liability obligations when the fall due.

For each financial year, Council approves a funding plan that minimizes liquidity risk. Treasury manages both the long-term and short-term cash requirements, with surplus funds from operations of the City invested in short term money market instruments.

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### 46. RISK MANAGEMENT (continued)

Long-term liquidity risks arising from capital project initiatives are managed through issuance of long-term debt in the form of COJ bonds or long term loans or a combination of the two.

Short-term liquidity constraints are managed through two types of short-term funding methods: i) General Banking Facilities and ii) Commercial Paper Issuance. CJMM's Treasury makes sure that all short term facilities utilised within the financial year are paid before the end of the financial year in line with Section 45(4)(a) of the MFMA. A cash management policy for managing its short-term cash flows and cash balances in a cost-effective manner is in place. The cash management policy assists the Group in managing its liquidity risk through the use of cash projection models with the aim of minimizing variances between projected and actual usage.

Both Short-term and Long-term borrowings are approved as per the budget and the banking services contract. The table below indicates approved facilities as at end of June 2016:

Details	Approved Funding R'000	Total Utilised R'000	Available for use R'000
<b>Short-Term Borrowings</b>			
<b>Long-Term Borrowings</b>			
Long term borrowing	3 940 000	(3 940 000)	-

Short-term liquidity constraints are managed through two types of short-term funding methods: i) General Banking Facilities and ii) Commercial Paper Issuance. CJMM's Treasury ensures that all short term facilities utilized within the financial year are paid before the end of the financial year in line with Section 45(4) (a) of the MFMA. A cash management policy for managing its short-term cash flows and cash balances in a cost-effective manner is in place. The cash management policy assists the Group in managing its liquidity risk through the use of cash projection models with the aim of minimizing variances between projected and actual cash usage.

Liquidity risk is also linked to Concentration risk which could be defined as the probability of high cash outflow arising from concentration of debt obligations payable around the same period, resulting in risk of default and the inability to evenly spreading liability obligations.

In line with GRAP 104, the tables below show CJMM's contractual maturity analysis of its interest rate swap and non-derivative financial liabilities.

### Funding Debt Maturities

The Group funds its coupon, interest and capital payments for all liabilities, other than bonds, from a Contingency Reserve Fund (CRF). Operational surpluses generated by the City are channeled into the CRF. Capital redemptions for bonds are funded from the Sinking Fund. The CJMM's annual budget contains provisions for coupon, interest and capital payments.

### Swap Redemption Analysis

Instrument	Maturity date	Due in 2016/17	Due in 2017/18				
INTEREST RATE SWAP R1bn Loan	29-Mar-18	13 344	10 339	-	-	-	-

### Capital Redemption Analysis of Non Derivative Liabilities as at 30 June 2016

Class	Balance	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Floating Rate Loans	1 872 9	114 724	1 114 724	68 386	65 111	57 527	452 500
Fixed Rate Loans	16 189 3	469 693	2 148 396	440 743	467 081	1 347 928	11 315 496
		-	-	-	-	-	-



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### 46. RISK MANAGEMENT (continued)

#### Maturity Analysis of Investments

The table below shows the maturity profile of investments as at 30 June 2015

Investment type	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Call Deposits	1 519 580	-	-	-	-	-
Short Term Investments	1 424 963	-	-	-	-	-
	-	-	-	-	-	-

#### Market risk

Market risk is the risk that changes in market prices, such as interest rates and commodity prices will affect the CJMM's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable risk parameters, while optimising the CJMM's service delivery objectives. GRAP 104 requires entities to disclose sensitivity analysis for each type of market risk as shown in the sections below. Interest rate risk is the main category of market risk which affects the Group.

#### Interest rate risk

This refers to the risk that the value of a financial instrument will change due to a change in i) the absolute level of interest rates; ii) in the spread between two rates; iii) in the shape of the yield curve or in any other interest rate relationship. CJMM's floating rate liabilities are exposed to interest rate risk in terms of both cash flow and fair values.

#### Interest Rate Fair Value Sensitivity Analysis

The fair values of the CJMM's floating rate liability portfolio are sensitive to interest rate changes. The fair values of these liabilities are based on projected cash flows calculated using market projected forward rates. The projected cash flows are then discounted using market implied discount factors. The table below shows how the fair values of floating rate liabilities change on the basis of the following assumptions:

- The base case interest rate is at current levels (0%)
- A range of values between two upward percent and one downward percent movement in interest rates. Management generally expects interest rates to rise in the future.

#### Fair value sensitivity to the interest rate movement/shift for Floating Rate Loans

Class	Fair Value	-1%	-0.50%	0	0.50%	1%	1.50%	2%
Floating Rate Loans	2 068 587	2 035 746	2 052 227	2 068 587	2 084 830	2 100 959	2 116 976	2 132 885

#### Fair Value Sensitivity Analysis of Variable Rate Liabilities

The fair value sensitivity analysis of variable rate liabilities shows that a 2 percentage point increase in interest rates will increase the fair value of floating rate liabilities by R64 million (3.11%), and a 1 percentage point decrease in interest rates will decrease the fair value of floating rate liabilities by R33 million.(-1.59%).

#### Interest Rate Cashflow Sensitivity Analysis

The Floating rate tables below shows the cash flow sensitivity analysis for floating rate liabilities. The sensitivity analysis is based on the following assumptions:

- The base case interest rate is at current levels
- A two percent upward and one percent downward movement in interest rates.

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### 46. RISK MANAGEMENT (continued)

#### Cash flow sensitivity analysis

Loan name	Institution	Nominal	Issue date	Cash Flow	Rate	Rate option	Interest rate shift						
							-1%	-0.50%	0%	0.50%	1%	1.50%	2%
DBSA 13541-1	DBSA	42 969	31 Mar-02	30-Sep-16 3 months JIBAR + 2.535%	Floating	3 490	3 544	3 599	3 653	3 707	3 761	3 815	
						-	3 444	3 495	3 546	3 597	3 648	3 699	3 750
						-	3 375	3 422	3 468	3 515	3 562	3 609	3 655
						-	3 335	3 379	3 423	3 467	3 511	3 555	3 600
						-	-	-	-	-	-	-	-
DBSA 102761-1	DBSA	337 500	20-Aug-09	31-Dec-16 6 months JIBAR + 2.85%	Floating	28 369	29 220	30 070	30 921	31 772	32 622	33 473	
						-	27 808	28 613	29 419	30 225	31 031	31 837	32 643
						-	27 638	28 426	29 213	30 001	30 789	31 576	32 364
						-	26 911	27 665	28 399	28 143	29 886	30 630	31 374
						-	-	-	-	-	-	-	-
DBSA 103345-1	DBSA	390 000	17-Apr-09	31-Dec-16 6 months JIBAR + 2.96%	Floating	33 554	34 537	35 520	36 503	37 486	38 469	39 453	
						-	32 868	33 798	34 727	35 667	36 587	37 517	38 447
						-	32 639	33 547	34 454	35 361	36 269	37 176	38 084
						-	31 761	32 617	33 472	34 328	35 183	36 039	36 894
						-	-	-	-	-	-	-	-
CALYON	CALYON	72 560	05-Sep-06	30-Sep-16 3 months JIBAR less 0.35%	Floating	10 169	10 260	10 352	10 443	10 535	10 626	10 717	
						-	10 037	10 116	10 196	10 275	10 364	10 433	10 512
						-	9 909	9 976	10 044	10 112	10 180	10 248	10 316
						-	9 779	9 835	9 892	9 949	10 005	10 062	10 118
						-	-	-	-	-	-	-	-

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### 46. RISK MANAGEMENT (continued)

		-					-	-	-	-	-	-	-
NEDBANK 1b	NEDBANK	1 000 000	04-Mar-10	30-Sep-16	3 months JIBAR + 2.8%	Floating	46 124	48 689	51 258	53 830	56 405	58 983	61 564
		-		31-Mar-17			46 890	49 442	51 998	54 557	57 118	59 683	62 251
		-		30-Sep-17			47 631	50 185	52 741	55 301	57 864	60 429	62 998
		-		31-Mar-18			1 047 799	1 050 338	1 052 881	1 055 426	1 057 975	1 060 527	1 063 082
		-					-	-	-	-	-	-	-
SCMB 200m	SCMB	29 985	19-Sep-03	30-Sep-16	CPI plus Margin	Floating	3 300	3 317	3 333	3 350	3 367	3 383	3 400
		-		31-Dec-16			3 300	3 317	3 333	3 350	3 367	3 383	3 400
		-		31-Mar-17			3 300	3 317	3 333	3 350	3 367	3 383	3 400
		-		30-Jun-17			3 300	3 317	3 333	3 350	3 367	3 383	3 400
		-					-	-	-	-	-	-	-

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### 46. RISK MANAGEMENT (continued)

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### 46. RISK MANAGEMENT (continued)

#### Swap Cashflow Sensitivity

The table below shows how the cashflow resulting from the swap would respond to changes in interest rates assuming:

- The base case interest rate is at current levels
- A two percent upward and one percent downward movement in interest rates

Date	SWAP CASHFLOW SENSITIVITY ANALYSIS						
	-1%	-0.50%	0	0.50%	1%	1.50%	2%
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
30-Sep-16	(9 785)	(8 493)	(7 201)	(5 909)	(4 618)	(3 326)	(2 035)
31-Mar-17	(10 991)	(8 564)	(6 142)	(3 730)	(1 322)	1 079	3 475
30-Sep-17	(9 913)	(7 651)	(5 398)	(3 174)	(959)	1 239	3 423
29-Mar-18	(9 100)	(7 012)	(4 940)	(2 906)	(888)	1 107	3 080
29-Sep-17	-	-	-	-	-	-	-
29-Mar-18	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
<b>Total</b>	<b>(39 789)</b>	<b>(31 720)</b>	<b>(23 681)</b>	<b>(15 719)</b>	<b>(7 787)</b>	<b>99</b>	<b>7 943</b>

From the above table we note that a 2 percentage point decrease in interest rates would increase swap cashflows by R31.63 million(134%). A 1 percentage point increase in interest rates will decrease the swap cash R16.1 million (68%).

#### Swap Fair Value Sensitivity

The table below shows how the fair value of the swap would respond to changes in interest rates assuming:

- The base case interest rate is at current levels
- A two percent upward and one percent downward movement in interest rates.

Instrument	Maturity date	Swap Fair Value Sensitivity						
		Fair value sensitivity to the interest rate shift						
		-1%	-0.50%	0%	0.50%	1%	1.5%	2%
INTEREST RATE	29-Mar-18	(37 347)	(29 691)	(22 134)	(14 719)	(7 398)	(184)	6 925
SWAP ON R1bn loan								

On the basis of the above assumptions, a 2 percentage point increase in interest rates will result in a R29 Million 131% decrease in the value of the swap liability. There is a positive relationship between the swap value and interest rates, thus if interest rates increase would result in 69%, the value of the swap liability.

#### Estimation of Fair Values

The fair value of financial instruments that are not traded in an active market (for example, trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the municipality is the current bid offer 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.

The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. 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.

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### 46. RISK MANAGEMENT (continued)

To determine the fair values of floating rate instruments, the municipality uses market forward rates to estimate future interest and capital cashflows, and then utilises market implied discount rates to calculate their present values. To determine the fair values of fixed rate instruments, the municipality uses market implied discount factors to calculate their present values.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

#### Fair Value Hierarchy

In terms of GRAP 104.130 there are different levels of fair values based on the extent that quoted prices are used in the calculation of the fair value. The fair value hierarchy applies to instruments reported at fair value on the statement of financial position. The interest rate swap is the only instrument reported at fair value and therefore needs to be classified as per fair value hierarchy. Level 2 Fair values are calculated using valuation techniques based on observable inputs either directly or indirectly other than level 1 inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data. The Level 2 all-inclusive fair value of the swap stood at -R22 million as at the end of 30 June 2016.

#### Credit/Counterparty Risk

The Group deposits surplus funds with financial institutions to mitigate against the negative cost of carry and these funds are diversified around different investment type and institutions.

The credit limit exposure table below depicts all investments with various counterparties as at the 30 June 2016. Total investments were R 2.9 billion. Treasury constantly monitors the percentage limit utilised.

COUNTERPARTY CLASS	Approved Limit	Operational		Ringfenced		Total Exposure	Available for use	Percentage Utilised
		Call Deposits	Term Deposits	Call Deposits	Term Deposits			
Domestic Banks	4 825	343 783	158 800	336 102	1 089 763	1 928 447	2 897 552	39 %
International Banks	1 050	4 593	-	-	176 400	180 993	869 007	17 %
Public Sector	1 200	53 050	-	-	-	53 050	1 146 950	4 %
Asset management firms	4 600	782 052	-	-	-	782 052	3 817 947	17 %
	<b>11 675</b>	<b>1 183 478</b>	<b>158 800</b>	<b>336 102</b>	<b>1 266 163</b>	<b>2 944 542</b>	<b>8 731 456</b>	<b>78 %</b>

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### 46. RISK MANAGEMENT (continued)

#### Credit quality of Investments

The credit qualities of CJMM's counterparties as at 30 June 2015 are shown in the table below.

COUNTERPARTY CLASS	Long Term Rating										Short Term Rating						
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	Withdr awn	Not Rated	F1+	F1	F2	F3	Withdr awn	Not Rated
Domestic Banks	0	0	3	2	0	0	0	0	0	0	0	5	0	0	0	0	0
International Banks	0	0	0	1	1	0	1	0	0	0	0	1	2	0	0	0	0
Public Sector	0	2	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0
Asset management firms	0	0	0	0	0	0	0	0	0	2	7	0	0	0	0	2	7
<b>Total</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>	<b>8</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>

#### Portfolio 2

##### Introduction and overview

In order for the CJMM to meet its debt redemption obligations specific to its long-term borrowing and to mitigate the related risks, the CJMM has mandated a fund manager to operate its Debts Redemption Fund (The Fund).

The key objectives central to the fund included in the mandate are:

- Immunize the liability, in principle eliminating interest rate risk, as well as eliminating reinvestment risk by matching the investment horizon of funds with their anticipated utilization;
- Enable the CJMM to meet their redemption obligations

The fund has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk.

##### Risk Management Framework

The Fund maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment management strategy. The Liability Plus approach entails a risk-based investment strategy that manages the fund's assets appropriately, relative to its liabilities. The strategy focuses on mitigating the risks surrounding the liability, whilst at the same time seeking a return from the asset base. Conservative hedges can be employed to provide protection against the risks embodied in the liability. An asset strategy deployed is designed to deliver above-benchmark returns, and this is overlaid on the protective derivative structures. The integrated solution mitigates risks and improves performance.

The Fund's investment manager has been given a discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the Fund's risk management framework is monitored quarterly by the Fund's Risk Committee which is chaired by the City Treasurer. Other committee members include senior treasury officials and the investment management team. Overall governance is monitored by the CJMM's Asset and Liability Committee (ALCO) whose primary objective is to manage financial risk emanating from the City's operational and borrowing initiatives.

##### Credit Risk

Credit Risk, in the instance of Portfolio 2, is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from derivative financial assets, cash and cash equivalents, balances due from agencies and receivables from reverse repurchase agreements.

##### Management of credit risk

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### 46. RISK MANAGEMENT (continued)

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Fund's risk management policy. Credit risk is monitored on a daily basis by the investment manager in accordance with policies and procedures in place. Any deviations on the expected parameters of the Fund's credit risk are acted upon immediately.

In terms of this mandate, the acceptable credit exposures are:

- Government
- Parastatals
- Highly-Rated Corporate, Banks and Institutions

Exposure limits are determined as a function of the primary capital of the issuer, the credit rating provided by a rating agency and the liquidity of the instrument.

#### Exposure to credit risk

The Fund's maximum credit risk at the reporting date is represented by the respective carrying amount of the relevant financial assets in the statement of financial position at 30 June 2016. The Fund was invested in securities the following credit quality:

Instrument Type	Fair Value
Bonds	1 852 201
Bond Repos	(376 139)
FRN	1 107 108
FRA	(6 367)
Bond options	(21 520)
Cash	47 711
Cash Collateral	251
NCD	-
Swaps	219 377
Promisory note	202 575
	-

#### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

#### Management of liquidity risk

The Fund's policy and the investment manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of bonds, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's liquidity risk is managed on a daily basis by the investment manager in accordance with policies and procedures in place. The Fund's overall liquidity risk is monitored on a quarterly basis by the Fund's Risk Committee and CJMM ALCO. Six months prior to any CJMM upcoming bond redemptions, the liquidity of the Fund is assessed in relation to the required redemption amount and necessary measures to meet the obligations are undertaken if necessary.

#### Maturity analysis for financial instruments

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments:

Class	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Settled Bond Assets	1 825 184	37 787	264 262	86 363	-	91 326	1 345 446



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<b>46. RISK MANAGEMENT (continued)</b>							
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Settled Bond Liabilities	-	-	-	-	-	-	-
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
FRN Assets	1 330 024	-	468 630	555 041	306 353	-	-
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
FRN liabilities	(222 917)	-	(222 917)	-	-	-	-
Subtotal	(222 917)	-	(222 917)	-	-	-	-
	<b>(222 917)</b>	<b>-</b>	<b>(222 917)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
FRA Assets	19 543	15 702	3 840	-	-	-	-
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
FRA Liabilities	(25 910)	(18 394)	(7 516)	-	-	-	-
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Swap Assets	3 270 921	5 100	39 353	18 930	17 447	111 054	3 049 036
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Swap Liabilities	(3 051 434)	(8 209)	(21 747)	(1 224)	-	(3 197)	(3 017 167)
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
Bond Repos Liabilities	(376 139)	(376 139)	-	-	-	-	-

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<b>46. RISK MANAGEMENT (continued)</b>							
<b>Class</b>	Trade NPV (Today)	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due in four to five years	Due in more than five years
PN Assets	-	-	-	-	-	-	-
	-	202 574	-	-	-	-	-
	-	<b>202 574</b>	-	-	-	-	-

### Market Risk

Market Risk is the risk that changes in market prices such as interest rates, equity prices, foreign exchange rate and credit spreads (not relating to changes in the issuers credit standing) will affect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

### Management of market risk

The Fund's strategy for the management of market risk is driven by the Fund's objective. The Fund deploys asset-liability matching principles to design an asset management strategy to immunise the portfolio from the underlying risks inherent in the liability. In addition, an active portfolio management strategy that rebalances the assets in order to take advantage of market mispricing opportunities is followed. Directional trades are overlaid on the asset strategy to provide yield enhancement.

The Fund's market risk is managed on a daily basis by the investment manager in accordance with policies and procedures in place. The Fund manager monitors the market risk in real time using the Rand per-Point metric which defines the profit or loss that would be generated by a one basis point move in the underlying interest rate curve.

The Fund's market positions are monitored on a quarterly basis by the Fund's Risk Committee and CJMM ALCO.

The Fund uses derivatives to manage its exposure to interest rate and other price risks. The instruments used include interest rate swaps, forward contracts, futures and options.

### Interest rate risk sensitivity analysis

The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. With respect to the Fund's interest-bearing financial instruments, the Fund is subject to exposure of fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

The sensitivity analysis reflects how changes in underlying interest rates affect the fair value of the financial instruments.

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### 46. RISK MANAGEMENT (continued)

#### Fair Value Sensitivity Analysis

Asset Class	Fair Value Sensitivity to the interest rate movement/shift						
	R'000s -1%	R'000s -0.5%	R'000s 0	R'000s 0.5%	R'000s 1%	R'000s 1.5%	R'000s 2%
Redemptions	(4 431 385)	(4 449 242)	(4 362 823)	(4 278 808)	(4 197 116)	(4 117 700)	(4 040 392)
Bonds	1 877 180	1 892 426	1 852 201	1 813 335	1 775 774	1 739 463	1 704 352
Bonds Repos	(376 220)	(376 175)	(376 139)	(376 104)	(376 068)	(376 032)	(375 997)
FRN	1 108 565	1 107 675	1 107 108	1 106 541	1 105 976	1 105 411	1 104 847
FRA	(9 566)	(9 959)	(6 367)	(2 823)	674	4 125	7 529
IRS	249 068	256 550	219 377	183 783	149 656	116 896	85 408
ABSA Cal	47 711	47 711	47 711	47 711	47 711	47 711	47 711
Reg Sec Collateral	17 480	17 480	17 480	17 480	17 480	17 480	17 480
Nedbank Collateral	(17 228)	(17 228)	(17 228)	(17 228)	(17 228)	(17 228)	(17 228)
Bond options	(12 985)	(10 165)	(21 520)	(30 304)	(35 054)	(36 456)	(36 171)
PN Repos	204 134	203 437	202 575	201 717	200 864	200 016	199 172
<b>Net</b>	<b>(1 343 246)</b>	<b>(1 337 490)</b>	<b>(1 337 625)</b>	<b>(1 334 700)</b>	<b>(1 327 331)</b>	<b>(1 316 314)</b>	<b>(1 303 289)</b>

#### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities with financial instruments either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

The primary responsibility for the development and implementation of controls over operational risk rests with the Fund's Risk Committee. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- contingency plans;
- ethical and business standards;
- risk mitigation

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to CJMM.

The Fund as provided the custodian a general lien over the financial assets held in custody for the purpose of covering the exposure from providing custody services. The general lien is part standard contractual terms of the custody agreement, at present, ABSA Bank Limited provide custody services.

#### Valuation of financial instruments

Availability of observable market prices and model inputs reduces the need for management opinion and estimation. This also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions of financial markets.

The Fund has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function which is independent of front office management and reports to the Funds Risk committee which has overall responsibility of significant fair value measurements. Specific controls include: verification of observable pricing inputs and re-performance of model valuation; a review and approval process for new models and changes to such models; analysis and investigation of significant daily valuation movement and reporting of significant valuation issues to the Funds Risk committee.

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### 46. RISK MANAGEMENT (continued)

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in the measurements:

- Level 1: Quoted prices (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly i.e (as prices ) or indirectly (i.e derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3: Valuation techniques using significant, unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted prices or dealer price quotations.

The Fund uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, or estimation. Observable prices and model inputs are usually available in the market for listed debt, exchange like interest swaps that use only observable market data and require little management, judgement and/ traded derivatives exchange and simple over the counter derivatives like interest rate swaps.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized:

<b>30 June 2016</b>	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
Bonds	1 852 201	-	-	1 852 201
Bond Repos	-	(376 139)	-	(376 139)
Floating Rate Notes	-	1 107 108	-	1 107 108
Forward Rate Agreements	-	(6 367)	-	(6 367)
Interest Rate Swaps	-	219 377	-	219 377
Bond options	-	-	(21 520)	(21 520)
Promisory notes	-	202 575	-	202 575
	<b>1 852 201</b>	<b>1 146 554</b>	<b>(21 520)</b>	<b>2 977 235</b>

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### 47. FRUITLESS AND WASTEFUL EXPENDITURE

#### Reconciliation of fruitless and wasteful expenditure

Opening balance	2 366	2 321
Fruitless and wasteful expenditure current year	2 248	45
Approved by Council or condoned	(125)	-
<b>Transfer to other debtors for verification</b>	<b>4 489</b>	<b>2 366</b>

#### 2016

##### GCSS

An amount of R129 836 is for interest charged on late payment of medical accounts for Compensation of Occupational Injuries and Diseases claims

##### Housing Department

An amount of R 28 705 relates to interest charged on Eskom account.

An amount of R 2 998 relates to Interest on Neotel account.

An amount of R 878 is in respect of Interest on Growthpoint Account.

An amount of R2 053 343 is for interest on court judgement granted against the City.

##### Social development

An amount R 32 510 relates to Interest charged on Eskom Account.

#### 2015

##### Rates and Taxes Department

An amount of R2 748 relates to an incorrect advertisement placed on the newspaper.

##### Housing Department

An amount of R41 917 relates to interest charged on Eskom account.

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<b>48. IRREGULAR EXPENDITURE</b>		
<b>Reconciliation of irregular expenditure</b>		
Opening balance	994 133	914 533
Irregular expenditure current year	47 790	79 600
Transfer to receivables for recovery	-	-
	<b>1 041 923</b>	<b>994 133</b>

### 2016

1. **The list below relates to current year expenditure for contracts that were identified as irregular in the previous years:**

Sunday Kit Uniform Supplies CC - R 78 854  
Axton Matrix Construction CC - R 860 847  
Blend Property Group - R 749 504  
Botlefela trading cc - R 749 504.51  
City Property Administration - R 186 078  
EOH - R 7 695 350  
Eskom Enterprises (Pty) Ltd - R 138 294  
Growthpoint Properties Limited - R 517 026  
Iyer Urban Studio CC - R867 250  
JT Ross Property Services (Pty) Ltd - R 2 250 602  
LexisNexis - R 2 069 826  
Liberty Life Properties (Pty) Ltd - R 5 234 503  
Link Reflective and Protective Designs CC - R 216 155  
Mulilavhathu trading - R 806 044  
Redefine Properties Ltd - R 806 044  
Redefined Properties Limited - R 6 940 689  
Royal Haskning DHV - R 1 314 694  
Universal Knowledge Software (UKS) - R 1 808 036  
Vimtsiri Security and Protection Services R 4 428 524

8. In addition to the above, we have identified potential irregular expenditure mainly from the transactions that appear to have been splitting of orders. Irregular expenditure identified mainly from the transactions that appear to have been splitting of orders. R 10 526 013

The irregular expenditure of **R 68 234 381** in the opening balance has been investigated and the expenditure could not be recovered as the City received benefit from the transaction. **R 120 107 169** is being investigated.

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### 48. IRREGULAR EXPENDITURE (continued)

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### 48. IRREGULAR EXPENDITURE (continued)

1. CQS Technology Holdings (Pty) Ltd  
The audit command language (ACL) Software is a tool used by Internal Audit to perform various analytics on sets of data. The software was procured from Messrs CQS Technology Holdings (Pty) Ltd as the official sole distributor of ACL and support of ACL licences in South Africa, hence the request for a deviation.  
R 677 230.66
2. Growthpoint Properties Limited  
The Housing Department Region A offices are located at Block L, 400 16th Road Central Park, Midrand, the public has been using the premises to engage with the Department, hence the request for a deviation to extend the lease for those premises as it is impractical to go out on tender on the same building.  
Value: R 494 745.40
3. KPMG  
On 20 December 2011 KPMG was appointed to second an Acting Group CFO on a temporary basis for a period of nine months at a cost of R5 859 000.00. Subsequent to the appointment of KPMG CJMM commenced with the recruitment process of an appropriate Group CFO however no suitable candidate was found hence the request for a deviation to extend the original engagement of KPMG by six months.  
Value: R 9 093 076.65
4. Blend Property Group and Redefine Properties Limited  
The normal procurement processes were dispensed with on the basis that the procurement in question is regarded as an exceptional case where it is impractical to follow the normal procurement processes. The library facilities within the communities who will be unhappy, and costs will be excessive. These libraries have been established in these communities for a very long time and moving or relocating them might disadvantage the communities and will be costly.  
Blend property group - R 391 721.93  
Redefine Properties Limited - Value: R 9 329 233.33
5. JT Ross Property Services (Pty) Ltd  
The Health Department Region A offices are located at Unit 6, 7 and 8, Alphen Square North Randjespark, Midrand. The public has been using the premises to engage with the Department; hence the request for a deviation to extend the lease for those premises as it is impractical to go out on tender on the same building.  
Value: R 2 372 843.86
6. Universal Knowledge Software (UKS)  
The provision and support of the Library System and that of a new contract for the supply and maintenance of the Library System for a period of thirty six (36) months, starting on 01 February 2013.  
Value: R 861 203.51
7. LexisNexis  
In the past Group Central HR and Group Legal and Contracts solicited quotations from services that provide research engine licenses for law reports, cases, training etc., for HR related cases and ordinary cases. Three service providers Sabinet, Juta and LexisNexis submitted their products and were interviewed and presentations were held to determine which product best suits the requirements of CJMM. The product by LexisNexis proved to provide a reliable reference and research engine that can be used as a reference work. CJMM has been using the product by LexisNexis since then, hence the request to deviate from the normal procurement process and appoint LexisNexis to provide licenses and services to be used as a research engine for the CJMM  
Value: R 1 803 739.50
8. Liberty Life Properties (Pty) Ltd  
Economic Development is currently occupying Jorissen Place, and the contract expired.  
  
Value : R 10 535 545.61
9. Axton Matrix Construction CC  
Tax clearance not submitted/No evidence that the municipal account statement was submitted  
Value: R 958 803.51
10. Vimtsiri Security and Protection Services  
Non Compliance with SCM regulation 28(1)(a)(ii) (Tenders not evaluated on preference point system)  
Value : R 10 677 453.51
11. KRB Law Firm (A466)  
Winning bidder's municipal accounts in arrears 90 days overdue Ramapala W L MJ46569.88 Issued on 02/05/2012, and Kunene 90 days overdue R5 204.26 02/04/2012  
Value: R 11 017 403.07
12. Ratification: Reg. 36(1)(b)



# City of Johannesburg Metropolitan Municipality

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### 48. IRREGULAR EXPENDITURE (continued)

Authorisation for payment of Late Harvest Caterers and Events

The Housing Department (Office of the MMC) requested catering for the launch of the allocation of units to the beneficiaries in Jabulani Extension 1 (Hostel) and Imbizo organized for 2000 people.

The department followed the normal procurement process in terms of soliciting quotations from their panel (A473) but however their process was not completed as they did not comply with Practise Note 4 of 2011 (Utilisation of Panels) in that they engaged the service provider without their report being signed by the delegated authority for a threshold of R30 000 to R200 000 hence the ratification.

Value: R 178 293.80

13. Events Galore

The Housing Department (Office of the MMC) requested catering for establishment of the steering committee in Princess plot and Thulamntwana the purpose of the event was to address the service delivery to avoid eruption of unrest as well as handing over projects to Ward Councillor and his team.

The department followed the normal procurement process in terms of soliciting quotations from their panel (A473) but however their process was not completed as they did not comply with Practise Note 4 of 2011 (Utilisation of Panels) in that they engaged the service provider without their report being signed by the delegated authority for a threshold of R30 000 to R200 000 hence the ratification.

Value: R 92 240.49

14. Brandhead Strategic Marketing Communications

The department followed the normal procurement process in terms of soliciting quotations from their panel (A471) but however their process was not completed as they did not comply with Practise Note 4 of 2011 (Utilisation of Panels) in that they engaged the service provider without their report being signed by the delegated authority for a threshold of R30 000 to R200 000 hence the ratification.

Value: R 60 326.92

15. Elphash Trading Enterprise

The department followed the normal procurement process in terms of soliciting quotations but however their process was flawed in that they engaged the service provider outside contract 402/12 and without proper authorisation by the delegated authority for a threshold of R30 000 to R200 000, hence the ratification.

Value: R21 190.92

16. EMS Private Providers

The Health Department request the approval of ratification of its actions for using services of EMS private providers while in process of appointing a contract for the EMS services for the 81 local government Primary Health Care (PHC) facilities. The EMS private ambulance service are used in the event of non-response by provincial ambulances in life threatening situations to prevent loss of life and avoid possible medico-legal implications for the Health facilities of the City of Johannesburg.

Value: R 208 135.39

17. Events Galore CC

The department followed the normal procurement process in terms of soliciting quotations from their panel (A473) but however their process was not completed as they did not comply with Practise Note 4 of 2011 (Utilisation of Panels) in that they engaged the service provider without their report being signed by the delegated authority and the threshold amount exceeded the delegation of the Group Head: Strategic Supply Chain Management and the report was referred to the EAC for approval, hence the ratification.

Value: R 263 733.63

18. Gourmet Food Services (Pty) Ltd

The department followed the normal procurement process in terms of soliciting quotations from their panel (A473) but however their process was not completed as they did not comply with Practise Note 4 of 2011 (Utilisation of Panels) in that they engaged the service provider without their report being signed by the delegated authority for a threshold of R30 000 to R200 000 hence the ratification.

Value: R 169 898.09

19. Events Galore CC

The department followed the normal procurement process in terms of soliciting quotations from their panel (A473) but however their process was not completed as they did not comply with Municipal Supply Chain Management Policy, in that they engaged the service provider without their report being signed and approved by the Central Adjudication Committee, hence the ratification.

Value: R 1 099 131.30

20. Seipelo Consulting Services, Mantshakala Catering and Mbedzi Events Management

The Environmental And Infrastructure Services Section 79 Committee scheduled a Public Hearings for the Treated

# City of Johannesburg Metropolitan Municipality

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### 48. IRREGULAR EXPENDITURE (continued)

Effluent Draft By-Law in various regions on 14 March 2015 this event required catering and PA Systems. Quotations were sourced from suitably qualified service providers and while the department was still busy with the procurement process, they were advised that the Public Hearings were postponed (as per the decision made in the Programming Committee on 11 March 2015). On the day before the Public Hearings (13 March 2015), the department was advised that the public hearing were going through (as per the decision made by the By-Law Task Team on 12 March 2015) and that they should proceed with the procurement process. This left the department with no time to complete the procurement process, hence the ratification.

Seipelo Consulting Services

R 25 614.04 (for catering)

Mantshakala (Catering)

R 25 438.60 (for catering)

Mbedzi Events Management

R 24 561.40 (PA Systems)

21. Sunday Kit Uniform Supplies CC, Faithfullness Business Enterprise CC, Link Reflective and Protective

Designs CC, Bonamini Trading Enterprise and Rads Investments. Bid Advertised for less than the minimum required period (Contract number 434/14)

Value: R 2 333 768.90

22. Kendon Medical Supplies, Instant Office Furniture Cc and Zamchem CC

Non - compliance with SCM regulation 5 which may result in irregular expenditure no evidence that the following quotation were approved by a appropriately delegated official or committee as required by SCM regulation 5.

Value: R 48 227.48

23. Moagi Technologies cc and Zamchem CC

It appears that there has been a deliberate splitting of quotations to avoid compliance with the ACM regulations .

Value: R 51 548.28

24. Mulilavhathu trading, Botlefela Trading cc, Iyer Urban Studio CC and Royal Haskning DHV.

Municipal account that is in arrears for more than 3 months.

Value: R 6 709 536.06

25. Griffiths and Griffiths CC

Purchase of Antique Furniture pieces.

Value: R 125 780.78

26. Dimension Data - Setting up of ICT Infrastructure

Setting up of ICT infrastructure for the New office of the Ombudsman and its Business Operations The incorporation of the Ombudsman's Office ought to have been adequately planned for and hence justification is inadequate. It was not impossible neither was it impractical for CJMM to follow the official procurement process hence the deviation is contrary to Reg.36 (1)(a)(v).

Value: R 3 996 177.42

27. EOH - Setting up of infrastructure network cabling

Setting up of ICT infrastructure for the New office of the Ombudsman and its Business Operations. The incorporation of the Ombudsman's Office ought to have been adequately planned for and hence justification is inadequate. It was not impossible neither was it impractical for CJMM to follow the official procurement process hence the deviation is contrary to Reg.36 (1)(a)(v).

Value: R 792 816.69

28. Yeo Technologies - Setting up and Hosting of the Contact centre

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### 48. IRREGULAR EXPENDITURE (continued)

Setting up of ICT infrastructure for the New office of the Ombudsman and its Business Operations The incorporation of the Ombudsman's Office ought to have been adequately planned for and hence justification is inadequate. It was not impossible neither was it impractical for CJMM to follow the official procurement process hence the deviation is contrary to Reg.36 (1)(a)(v).

Value: R 5 129 167.41

### 29. Tefo Efithile Trading

Supplier in service of the CJMM

Value: R 30 965.00

### 30. In addition to the above, we have identified potential deliberate splitting of quotations and quotation not approved by a appropriately delegated official or committee. The maximum value which is currently being investigated amounts to R 83 953 280.33, however due to time constraints, at the date of finalising the financial statements it was impracticable to quantify the irregular expenditure as investigations were still in progress.

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<b>49. UNAUTHORISED EXPENDITURE</b>		
<b>Reconciliation of unauthorised expenditure</b>		
Opening balance	2 725 022	1 765 700
Unauthorised expenditure current year	622 000	959 322
Approved by Council or condoned	(959 322)	-
	<b>2 387 700</b>	<b>2 725 022</b>

### 2016

The year-to-date expenditure is over budget and is mainly due to the following reasons:

- Depreciation – is over budget by R18 million due to capitalisation of newly acquired assets.
- Employee Related Costs – is over budget by R6,4 million as a result of vacant positions filled.
- Other Expenditure – is over budget by R7 million and is attributable to over spending on electricity charges, skills development levy, and water charges.

The year to date expenditure is over budget and is mainly due to the following reasons:

- Bad debts – are over budget by R424 million due to the the adjustments effected in line with the City's credit control policy stipulations to account for projected budget for collection.
- Depreciation –is over budget by R22 million as a result of processing depreciation entries as a result of increased assets acquired resulting in more than the approved budget provision.
- Other expenditure –is over budget by R143 million, the major contributor to the variance is attorney collection fees. This is mainly due to the number of accounts being handed over to the attorneys for maximisation of revenue collection.

As part of the unauthorised expenditure in the current year relates to non cash item i.e. Depreciation

### 2015

The unauthorised expenditure in 2014/15 financial year relates to non-cash items I.e. debt impairment, depreciation and asset impairment which resulted from actual expenditure exceeding budget,

# City of Johannesburg Metropolitan Municipality

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### 50. IN-KIND DONATIONS AND ASSISTANCE

#### Health

Health Department received the following:

Management patient files from metrofile @ R 73 847.00

3X Laser Printers for langlaagte Pharmacy @R4 250.00 per unit from Annova R12 750.00

#### Community Development

Community development department received the following:

5 669 books from Corporate donations @ R1 254 073.00

2 520 books received from Friends of the Libraries @ R536 603.00

28 127 books received as donations from anonymous members of public @ R5 910 348.00

#### Speaker's Office

Office of the speaker received the following inkind donations:

Mayou-4 VIP Protection, Council Owned vehicle and admin support, mayoural spousal program

Speaker-2VIP Protection, council owned vehicle and admin support

Strategic and Admin Support-MMC and Chief whip

Admin Support-Ward Councillors

Admin Support-For chairpersons

#### Environment and Infrastructure

Hotel Accomodation Sponsorship by C40 @R24 588.45

Hotel Accomodation sponsored by City of Paris @ R4 994.96

Hotel Accomodation sponsored by Agence Franciase de Development@ R31 915.72.

#### 'Development Planing

'Development Planning Department received the following:

Donation received towards research regarding the assessment and development of commercial and industrial propeties in Gauteng Properties at R500 000

#### 'Office of the Mayor

The office of the Mayor recieved the following:

Meerlust ans sauvignon Blanc from The Capital Projects & Infrustructure Team-PWC at R500

Joburg Watch at R150

The Zohar received from the Kabbalah Centre at R600

Small bottle of Honey from Pinpoint One at R50

Sleeping bag from Sun Intermtional at R400

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<b>51. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>Contributions to organised local government</b>		
Council subscriptions	11 329	10 500
Amount paid - current year	(11 329)	(10 500)
	-	-
<b>Audit fees</b>		
Opening balance	2 291	1 912
Current year audit fee	19 700	21 333
Amount paid - current year	(19 911)	(20 954)
	<b>2 080</b>	<b>2 291</b>
<b>PAYE and UIF</b>		
Opening balance	65 762	61 294
Current year payroll deductions	887 386	788 003
Amount paid - current year	(809 648)	(722 241)
Amount paid - previous years	(65 762)	(61 294)
	<b>77 738</b>	<b>65 762</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	70 729	106 706
Current year payroll deductions and council contributions	1 640 381	1 592 691
Amount paid - current year	(1 504 918)	(1 521 962)
Amount paid - previous years	(70 729)	(106 706)
	<b>135 463</b>	<b>70 729</b>
<b>VAT</b>		
VAT receivable	171 744	284 336

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

# City of Johannesburg Metropolitan Municipality

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### 51. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016. All amounts are disclosed in Rands and are not rounded to the nearest thousand.

30 June 2016	Outstanding less than 90 days Rands	Outstanding more than 90 days Rands	Total R
A CADMAN	40 845	30	40 875
M LOUW	638	4 285	4 923
D DEWES	52 725	287 724	340 449
IR MATHEBULA & SM GWALA	532	13 268	13 800
JM VALENTINE	-	16	16
D M & T NETNOW	261 293	2 243	263 536
F ABDULLAH	802	22 819	23 621
AM SEFOLOKO	846	7 218	8 064
M MAZIBUKWANA	239	517	756
	<b>357 920</b>	<b>338 120</b>	<b>696 040</b>

30 June 2015	Outstanding less than 90 days (Rands)	Outstanding more than 90 days (Rands)	Total R
Clarke SNM	1 957	-	1 957
Dyodo P	1 190	2 517	3 707
Jane DK	534	14	548
Lemao SJ	3 911	586	4 497
Louw MA	2 866	1 260	4 126
Mahlanga JP	399	1 200	1 599
Matladi JM	-	19	19
Motlhamme SBE	518	43	561
Netnow DM	9 754	302 647	312 401
Nyengeza Mp	274	1 194	1 468
Radebe C	2 589	13 890	16 479
Tsobane MM	1 413	165	1 578
	<b>25 405</b>	<b>323 535</b>	<b>348 940</b>

# City of Johannesburg Metropolitan Municipality

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**51. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)**

During the year under review the following Councillors' had arrear accounts outstanding for more than 90 days.



# City of Johannesburg Metropolitan Municipality

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### 51. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

### 52. AWARDS TO CLOSE FAMILY MEMBERS OF PERSONS IN THE SERVICE OF THE STATE

During the year under review the municipality gave the following award to a person who is a spouse, child or parent of a person in the service of the state or has been in the service of the state for the previous twelve months

<b>Name of the person (Service of the State)</b>	<b>Capacity</b>	<b>Name of the person/company award</b>	<b>Name of company</b>	<b>Amount in Rands</b>
Amelia Cynthia Marks	Perm (Revenue and CRM)	Andrew Richard Marks	Andrew's Blinds CC	4 651
Vulani Nonchalant Maeko	Perm (Admin Assistant Stores)	Tshepo Joseph	Maeko Property Developments	633 536
Miriam Moalusi	Nurse	Samual Tebogo	Temoso Trading 387 CC	13 680
Sophie Nomvula Kotsedi	Cashier	Johannes Pompom Kotsedi	Kotsedi Medical CC	121 853

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### 53. 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 accounting officer and includes a note to the annual financial statements.

In terms of Section 36 (2) of the supply chain management regulation.

1. Appointment of Gourmet Food Services to cater for a Stakeholders Event that took place on 14 March 2015.

The department solicited quotations from three (3) service providers on Panel A473 instead of requesting quotations from all (9) service providers that are on Panel A473.

Gourmet Food Services

**Amount: R81 760**

2. The office of the Chief Whip has adopted a Whippy outreach program which is aimed at communicating the city's council decision to the residents of Johannesburg in all seven regions of the city since 2012/13 financial year till to date. Quotations are solicited from different service providers that reside in the area visited and who are on CoJ database. Normal procurement processes were followed however Supply Chain did not release invoices as they perceive this as a split of quotation, hence the ratification.

Y – Deluxe Fast Food - R28 480

Mufanadzo General Enterprise - R28 000

Mojoshe Catering & Projects - R29 000

Ouma Catering Services - R28 800

Khayalimnandi Catering - R28 960

Valdifon CC - R27 200

Funizwe Catering - R28 800

Mojoshe Catering & Projects - R28 000

3. Appointment of a Service Provider for Mango Kernel Flour and the Associated Technical Training for the Joburg Bread Programme

The requirement for the appointment of a sole provider for the project is due to the fact that there is no capacity in the City or the Department to undertake the technical training for Joburg Bread, that the Joburg Bread concept is an innovation to the City, and that GEMS is the only organization with the proof of patent application to produce the mango kernel flour using mango waste, and that the technology is aligned to the Blue Economy business model.

Green Enviro Management Systems Inc. (GEMS)

**Amount: R 919 736**

4. Request for Continuous Membership to Gartner Research Services

The master service level agreement was entered into on 17<sup>th</sup> March 2006 with Gartner to provide Advisory Services to the OCIO team. The agreement is also application to all Consulting Services provided by Gartner set out in the various Statement of Work entered into by the parties.

Gartner Ireland

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### 53. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS (continued)

**Amount: R6 353 874**

5. Deviation and Ratification from the Normal Procurement processes in terms of regulation 36 (1) (b) of the municipal supply chain Management for departments to remain in their current buildings and to extend the current lease agreements.

Procurement processes in terms of regulation 36 (1) (b) of the municipal supply chain Management

Eureka - R 650 000

Aca -Crum - R 439 000

Teljoy - R 278 000

Cj Cronje - R 556 000

Proton - R732 000

Traduna - R 661 000

Fedsure Parking - R 99 000

Aca Health - R 90 000

Kyalami Business park - R 35 000

Jorissen – DED - R 650 000

ACA-Legislature - R 85 000

Alphen Square Dev - R 150 000

Alphen Square Health - R 250 000

222 Smit Str Housing - R 591 000

Blackheath Library - R 13 500

Horizon View Library - R 8 500

Kilarney Library - R 6 500

Halfway House Library - R 8 500

Wilfro Park Library - R 7 000

Modderfontein Library - R 8 000

MTC at 222 Smit Street - R 250 000

16<sup>th</sup> Road Randjies Park - R 42 000

Transport - R 14 8 843

Alexandra Library - R 10 000

Malvern Library -R 10 0000

Gandhi Square (Metrobus ticket office) - R 11 264

# City of Johannesburg Metropolitan Municipality

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### 53. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS (continued)

Sappi Building - R 453 484

6. Deviation report for the SAP Maxattention support services

Procured in terms of Section 116 (3) of the Municipal finance management Act.

EOH

**Value: R75 000 000**

7. Deviation from the normal procurement processes and ratification of the actions of JMPD in relation to the appointment of catering services for public safety ward based policing (Joburg 10 plus) and tool kit training programme.

Procurement processes in terms of regulation 36 (1) (b) of the municipal supply chain Management. Payment to the Service provider was approved and the matter was referred to Group Risk and Assurance Services (GRAS) for investigation in terms of Regulation 38(b) of the Municipal Supply Chain Management Regulations

Late Harvest Caterers & Events; Lapa la Rona; Make it Happen; Jessy Catering Services T/A Platters, and Taung Management Services

**Amount: R123 030**

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### 54. HEDGING ACTIVITIES

During the financial year 2010/2011, CJMM entered into an interest rate swap by exchanging the Nedbank R1 billion 3 months JIBAR rate + 280 bsp for a 11.66% fixed interest rate.

#### Swap Details

Trade Date : 30 March 2011  
Settlement Date: 29 March 2018  
Nominal Amount: R 1 billion  
Fixed Rate: 11.66%  
Payable: Semi- annual

The cash flow hedge was ineffective for the year ended 30 June 2015 and it no longer met the criteria for hedge accounting as per IAS 39 par 88. The City of Johannesburg has therefore discontinued applying hedge accounting. .

### CASH FLOW RESERVE

Opening Balance	19 570	37 721
Fair value movement - SWAP	(14 200)	(18 151)
	<b>5 370</b>	<b>19 570</b>
Interest expense recognised in the statement of financial performance during the financial period	21 868	37 381

Note that the SWAP value represents the clean fair value as at 30 June 2016 ( All inclusive price less any SWAP interest accrual outstanding)

Interest expense recognised in the statement of financial performance during the financial period

# City of Johannesburg Metropolitan Municipality

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### 55. RELATED PARTIES

#### Relationships

Controlling entity  
Other members of the group

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

Joint ventures

#### Related party balances

##### Amounts included in Loans, Trade and other receivables regarding related parties

City Power Johannesburg (Pty) Ltd	4 190 326	3 981 965
City of Johannesburg Property Company (Pty) Ltd	69 494	236 037
Johannesburg City Parks	57 146	39 133
Johannesburg Development Agency (Pty) Ltd	145 327	70 854
Johannesburg Metropolitan Bus Services (Pty) Ltd	799 629	323 182
Johannesburg Roads Agency (Pty) Ltd	82 937	123 055
Johannesburg Social Housing Company (Pty) Ltd	29 976	16 436
Johannesburg Water (Pty) Ltd	4 626 541	4 366 719
Metropolitan Trading Company (Pty) Ltd	9 509	-
Pikitup Johannesburg (Pty) Ltd	879 253	1 088 547
The Johannesburg Civic Theatre (Pty) Ltd	401	3 220
The Johannesburg Fresh Produce Market (Pty) Ltd	76 537	111 427
	<b>10 967 076</b>	<b>10 360 575</b>

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### 55. RELATED PARTIES (continued)

#### Amounts included in Loans,

#### Trade and other payables regarding related parties

City Power Johannesburg (Pty) Ltd	2 369 326	2 251 768
City of Johannesburg Property Company (Pty) Ltd	139 879	252 262
Johannesburg City Parks	652 479	604 570
Johannesburg Development Agency (Pty) Ltd	856 119	868 828
Johannesburg Metropolitan Bus Services (Pty) Ltd	217 487	30 113
Johannesburg Roads Agency (Pty) Ltd	740 866	822 118
Johannesburg Social Housing Company (Pty) Ltd	322 356	246 143
Johannesburg Water (Pty) Ltd	588 572	643 470
Metropolitan Trading Company (Pty) Ltd	930	-
Pikitup Johannesburg (Pty) Ltd	940 477	1 060 557
The Johannesburg Civic Theatre (Pty) Ltd	18 437	7 196
The Johannesburg Fresh Produce Market (Pty) Ltd	65 777	40 546
	<b>6 912 705</b>	<b>6 827 571</b>

#### Related party transactions

#### Revenue from related parties

City Power Johannesburg (Pty) Ltd	203 643	422 634
City of Johannesburg Property Company (Pty) Ltd	425 602	7 005
Johannesburg City Parks	764 118	50 215
Johannesburg Development Agency (Pty) Ltd	22 382	7 832
Johannesburg Metropolitan Bus Services (Pty) Ltd	434 580	49 142
Johannesburg Roads Agency (Pty) Ltd	795 150	26 695
Johannesburg Social Housing Company (Pty) Ltd	23 541	-
Johannesburg Water (Pty) Ltd	260 406	569 004
Metropolitan Trading Company (Pty) Ltd	84 546	-
Pikitup Johannesburg (Pty) Ltd	703 256	71 302
The Johannesburg Civic Theatre (Pty) Ltd	99 063	8 413
The Johannesburg Fresh Produce Market (Pty) Ltd	18 730	65 475
	<b>3 835 017</b>	<b>1 277 717</b>

#### Operating Expenditure

City Power Johannesburg (Pty) Ltd	203 643	186 494
City of Johannesburg Property Company (Pty) Ltd	395 772	294 133
Johannesburg City Parks	764 118	691 953
Johannesburg Development Agency (Pty) Ltd	22 382	26 855
Johannesburg Metropolitan Bus Services (Pty) Ltd	434 580	403 775
Johannesburg Roads Agency (Pty) Ltd	808 964	768 941
Johannesburg Social Housing Company (Pty) Ltd	23 541	25 580
Johannesburg Water (Pty) Ltd	260 406	272 182
Metropolitan Trading Company (Pty) Ltd	84 546	-
Pikitup Johannesburg (Pty) Ltd	679 839	592 918
The Johannesburg Civic Theatre (Pty) Ltd	107 113	70 545
The Johannesburg Fresh Produce Market (Pty) Ltd	18 730	16 730
	<b>3 803 634</b>	<b>3 350 106</b>

#### Commitments

Johannesburg Development Agency (Pty) Ltd	1 246 421	2 003 690
Johannesburg City Parks & Zoo	66 899	88 100
Johannesburg Metro trading (Pty) Ltd	7 123	-
Johannesburg property Company (Pty) Ltd	57 283	369 878
Johannesburg Roads Agency (Pty) Ltd	16 023	17 100
Johannesburg Water (Pty) Ltd	716	-
	<b>1 394 465</b>	<b>2 478 768</b>

# City of Johannesburg Metropolitan Municipality

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### 55. RELATED PARTIES (continued)

The commitments above with related parties are included under note 43

### 56. LOANS FROM MUNICIPAL ENTITIES

Non-current liabilities	412 990	411 802
Current liabilities	-	-
	<b>412 990</b>	<b>411 802</b>

### Notional Accounts

The liability with the municipality entities were undertaken by the City of Johannesburg Metropolitan Municipality to cover the portion of the post retirement liability accrued for the employees of City of Johannesburg Metropolitan Municipality who were transferred to municipal entities when they were established. The amount of the liability was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the municipal entities may claim benefit payments made.

#### Medical Aid Notional loan account

Opening balance	142 069	134 931
Finance cost	9 330	8 061
Payments	(1 635)	(923)
	<b>149 764</b>	<b>142 069</b>

#### Gratuities Notional loan account

Opening balance	269 733	276 182
Finance cost	17 442	16 199
Payments	(23 948)	(22 648)
	<b>263 227</b>	<b>269 733</b>

### 57. OPERATING LEASE (LESSOR)

#### Minimum Lease Payments due

Within one year	19 442	17 992
In second to fifth year	64 426	56 288
Later than five years	60 167	169 312
	<b>144 035</b>	<b>243 592</b>

The rental income is in relation to the rental of buildings.

### 58. CASH MANAGEMENT

During the 2016 financial year, Transport department within City of Johannesburg had cash losses due to alleged fraudulent activities and theft amounting to R31,194 million (2015: R8,133 million). These losses incurred led to monies which were never credited into the City's bank account. Management is in the process of prosecuting personnel alleged to have undertaken fraudulent activities and/or have been negligent in the execution of their duties. Cases have also been opened with the SAPS with a view inter alia to recovering the monies. Investigations are almost complete and based on the outcome of these investigations actions have already been taken and will continue to be taken to improve controls and hold the relevant parties accountable.

Total gross losses	46 858	15 664
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### 59. EVENTS AFTER THE REPORTING PERIOD

Municipal elections took place on the 3rd August 2016. The outcome resulted in a change in Mayoral Committee members. This date falls within the post balance sheet period, therefore the change in the committee members should be noted.