Johannesburg Metropolitan Bus Services SOC Limited
(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements
for the year ended 30 June 2016

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Providing a public bus service to the commuters of the City of Johannesburg and also the hiring out of its buses to individuals and organisations
CHIEF FINANCE OFFICER (CFO)	Zane T Mheyamwa
DIRECTORS	Ms N Mpofu (Chairperson) Ms K Sangoni Mr P Mmope Mr M Moerane Ms G Rapholo Ms S Yanguya Mr M Scott Mr D Baloyi Mr Z Mkhonta Mr Z Mayaba Mr M Dlamini (MD) Mr Z Mheyamwa (CFO)
REGISTERED OFFICE	Transportation House 1 Raikes Road Braamfontein 2000
BUSINESS ADDRESS	Transportation House 1 Raikes Road Braamfontein 2000
POSTAL ADDRESS	PO Box 1787 Johannesburg 2000
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality incorporated in South Africa
BANKERS	Standard Bank South Africa
AUDITORS	Auditor-General South Africa (AGSA)
SECRETARY	Karen Brits
COMPANY REGISTRATION NUMBER	2000/004704/07
LEVEL OF ASSURANCE	These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008 and the Municipal Finance Management Act (56 of 2003).
PREPARER OF FINANCIAL STATEMENTS	The annual financial statements were internally compiled by: Finance Manager and reviewed by CFO

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

Abbreviations

CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MD	Managing Director
CIPC	Companies and Intellectual Property Commission
IND ARC	Independent Audit Committee Member
NED	Non-executive director
CFO	Chief Financial Officer

Directors' Responsibilities and Approval

The directors are required by the Companies Act, 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General is engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with GRAP.

The annual financial statements are based on appropriate accounting policies.

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

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

The directors have reviewed the entity’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the board of directors is primarily responsible for the financial affairs of the entity, they are supported by the entity's co-sourced internal audit function with PricewaterhouseCoopers (PwC).

The external auditors are responsible for auditing the annual financial statements with the aim of expressing an audit opinion on the annual financial statements of the Johannesburg Metropolitan Bus Services SOC Limited.

Ms N Mpofu (Chairperson)	**Mr M Dlamini (MD)**

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 6 times per annum as per its approved terms of reference. During the current year 6 meetings were held.

Name of member	Number of meetings attended
Ms S Yanguya (Chairperson and NED)	6
Ms K Parirenyatwa (Independent)	5
Ms S Mzizi (Independent)	5
Ms M Ramonyai (Independent)	2
Mr P Mmope (NED)	2

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Finance Department of the entity during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Audit Committee Report

Chairperson of the Audit Committee

Date: ______________________________

Directors' Report

The directors submit their report for the year ended 30 June 2016.

1. INCORPORATION

The entity was incorporated on 01 March 2000 and obtained its certificate to commence business on the same day.

2. REVIEW OF ACTIVITIES

Main business and operations

The Johannesburg Metropolitan Bus Services SOC Limited is a Municipal Entity of The City of Johannesburg Metropolitan Municipality. The entity is engaged in providing a public bus service to the commuters of the City of Johannesburg and also the hiring out of its buses to individuals and organisations and operates in South Africa.

The operating results and state of affairs of the entity are clearly set out in full in the attached annual financial statements. Further comments, other than the comments provided below, will be included in the Annual Report.

The company recorded a net deficit of R 32 976 484 (2015: deficit R 80 911 198) for the year under review. This is mainly attributable to shortfall on fare revenues.

3. GOING CONCERN

We draw attention to the fact that at 30 June 2016, the entity had accumulated deficits of R 341 992 666 , (2015: R 310 420 989) and that the entity's total liabilities exceed its assets by R 171 559 683 (2015: R 134 151 541). The entity is in this position as a result of an accumulated under collection of revenue and the financial structure of the organisation. The main ratios of the organisation as at 30 June 2016 were 0.34:1 (2015: 0.06:1) for the current ratio and 1.21:1 (2015: 1.41:1) for the solvency ratio. These are below the City's benchmarks of 1:1 and 2:1 for the current and the solvency ratios respectively. The board is actively engaged in resolving this matter through the Mandating Committee and has developed a five point plan to address specific priorities.

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

The company is wholly dependent on the City of Johannesburg Metropolitan Municipality for continued funding of its operations. The financial statements are prepared on the basis that the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the company`s operations, and will be providing the required funding of operations accordingly.

Should the subsidies be withdrawn, it is management and the Board's opinion that the company would not be in a position to continue as a going concern on its current mandate. Management and the Board is unaware of any reason that could cause the City of Johannesburg Metropolitan Municipality to withdraw its financial support and therefore have no reason to believe that the company would not be operating in the forseeable future.

The City of Johannesburg Metropolitan Municipality has provided an operating subsidy of R433 million in 2015/2016 and R474 million for the 2016/2017 financial year. The shareholder has started a process of restructuring the entity into a viable and sustainable entity by approving a turnaround strategy in June 2013. This means replacement of the current subsidy business model with a performance based contract model whereby Metrobus will be paid according to the number of contracted and scheduled kilometres operated. Roll out of the plan started in 2014 financial year with the achievement of the following key milestones:

- Formation of a mandating committee of the Board to negotiate with the stakeholders.
- Refurbishment and conversion of 30 buses from diesel to dual diesel fuel,
- Acquisition of one hundred and seventy five (175) buses .
- Finalisation of the new operational plan with revised routes and improved frequencies to improve bus service efficiency.
- Development of the Bus Operating Company Agreement (BOCA) and Service Delivery Agreement (SDA).
- Institutional review process including redesigning the organisational structure.

This turnaround strategy will address the insolvency issue at Metrobus.Negotiation process to agree on the critical areas of the plan such as the fee per kilometre, BOCA and SDA, the operational plan and the new organisational structure is scheduled to take place in the 2016/17 financial year.

Directors' Report

4. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report, not otherwise dealt with in the financial statements, which significantly affect the financial position of the company or the results of its operations that would require adjustments to or disclosure in the annual financial statements.

5. SHARE CAPITAL

There were no changes in the authorised or issued share capital of the entity during the year under review. The entire shareholding of the company is held by The City of Johannesburg Metropolitan Municipality.

6. BORROWING LIMITATIONS

In terms of the service level agreement, Johannesburg Metropolitan Bus Services (SOC) Limited does not have the authority to borrow funds. All external funding is managed under the auspicies of the City of Johannesburg Metropolitan Municipality Assets and Liability Committee (ALCO).

7. NON-CURRENT ASSETS

There were no major changes on the details of the nature of the non-current assets of the entity during the year.

8. DIRECTORS

The directors of the entity during the year and to the date of this report are as indicated below:

Current Directors	Status	Changes
Ms N Mpofu (Chairperson)	Non Executive	Appointed 15 March 2016
Mr D Baloyi	Non Executive	Apponted 03 February 2015
Mr P Mmope	Non Executive	Appointed 15 March 2016
Mr M Moerane	Non Executive	Appointed 25 April 2012
Ms S Yanguya	Non Executive	Appointed 16 April 2015
Ms K L Sangoni	Non Executive	Appointed 25 February 2014
Mr Z Mayaba	Non Executive	Appointed 15 March 2016
Ms G Rapholo	Non Executive	Appointed 15 March 2016
Mr Z Mkhonta	Non Executive	Appointed 15 March 2016
Mr M Scott	Non Executive	Appointed 15 March 2016
Mr M Dlamini (MD)	Executive	Appointed 02 February 2014
Mr Z Mheyamwa (CFO)	Executive	Appointed 01 October 2015

Retired Directors/ (Resigned)		
Mr H Msimang	Non Executive	Resigned 01 December 2015
Mr S Mbedzi	Non-Executive	Resigned 23 October 2015
Ms M Mojapelo	Non Executive	Retired 15 March 2016
Mr K Shubane (Former Chairperson)	Non Executive	Retired 15 March 2016
Ms N Batyi	Non Executive	Retired 15 March 2016
Prof. B Twala	Non Executive	Retired 15 March 2016

9. SECRETARY

The secretary of the entity is Karen Brits :

Business address

Transportation House
1 Raikes Road
Braamfontein
2001

Postal address

PO Box 1787
Johannesburg
2000

Directors' Report

10. CORPORATE GOVERNANCE

10.1 General

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

The entity confirms and acknowledges its responsibility to compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa. The entity discusses the responsibilities of management in this respect at Board meetings and monitors the entity's compliance with the code on a quarterly basis.

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

10.2 Board of directors

The Board:
- Retains full control over the entity, its plans and strategy;
- Acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- Is of a unitary structure comprising:
  - 10 non-executive directors, all of whom are independent directors as defined in the Code; and
  - 2 executive directors.

10.3 Chairperson and Managing Director

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

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

10.4 Human Resources and Remuneration Committee

All remuneration of the staff is determined by the Board of directors within the upper limits determined by the City of Johannesburg Metropolitan Municipality in terms of MFMA. The committee advises the Board on human resources policies, remuneration and other conditions of employment.

The members of the Human Resources and Remuneration Committee are Ms G Rapholo (Chairperson), Ms K Sangoni, Mr M Scott, Mr M Moerane, Mr Z Mkhonta and Mr Z Mayaba. The Committee met on three seperate occassions during the financial year.

10.5 Social and Ethics Committee

The members of the Social and Ethics Committee are Ms K Sangoni (Chairperson), Mr M Moerane, Ms G Rapholo, Mr D Baloyi and Mr M Scott. The Social and Ethics Committee met twice in the year under review.The function of the committee is to monitor the company's activities, relating to social and economic development, the environment and good corporate citizenship.

10.6 Service Delivery Committee

The members of the Service Delivery Committee are Mr D Baloyi (Chairperson), Mr P Mmope, Ms S Yanguya, Mr Z Mayaba and Mr Z Mkhonta. The function of the committee is to oversee the operations of the organisation as well as the service rendered to the various stakeholders. The committee met twice in the year under review.

10.7 Mandating Committee

The members of the Mandating Committee are Ms N Mpofu (Chairperson), Ms S Yanguya, Mr M Moerane, Mr Z Mkhonta and Mr P Mmope. The mandating committee was established to engage the shareholder to deal with Metrobus' Financial Sustainability as a Going Concern. Some of the responsibilities of the committee include dealing with the financial and operating model of the entity, operational excellence and efficiency. The Mandating Committee was established on 24 June 2016.

10.8 Strategic Direction

Directors' Report

In an effort to turnaround the entity, the Board came up with a Five (5) Point Plan which focuses on the following:

• Operational Efficiency: Business enablement through ICT, reliability of service, Improving image, efficient fleet management, enhancement of revenue collection and adequate infrastructure and resources.
• Financial Sustainability: Balance Sheet Restructuring; Clean Audit; Completeness of Revenue; Cost; Compliance; Enhancement of Financial Skills; and improvement Internal Controls
• Stakeholder Engagement: Customer Engagement, Marketing, Shareholder (CoJ) Engagement and Change Management within Metrobus.
• Service Delivery Improvement: Delivering on the mandate and achieving service standards revolves around availability of buses; reliability of buses; and safety of buses.
• Organisational Alignment: Performance and Discipline ;Organisational Culture; Business Process Engineering; Capacity Building; and Management Responsibility.

10.9 Non executive meetings

The Board met on 6 separate occasions during the financial year.

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

Various meetings were held during the current financial year to discuss, amongst others the restructuring and refleeting of Metrobus.

The following meetings were held by the Board and its sub commitees. Other meetings includes chairperson's quarterly and group audit committee meetings.

Name	Board Meeting	Audit and Risk Committee meeting	HR and REM Committee Meeting	Social and Ethics Committee Meeting	Service delivery committee	AGM and other meetings	Total
Total number of meetings held	6	6	3	2	2	5	24
Ms N Mpofu (Chairperson)*	2					3	5
Mr P Mmope	2	2			1	1	6
Mr M Moerane	3		3	2		1	9
Ms S Yanguya	4	6		1	1	1	13
Ms K L Sangoni	2	4	2		1	1	10
Ms G Rapholo	2		1	1		1	5
Mr M Scott	2		1	1		1	5
Mr D Baloyi	4			1		3	8
Mr Z Mkhonta	2		1		1	1	5
Mr Z Mayaba	2		1		1	1	5
Mr M Dlamini (MD)***	6	5	2	1	2	5	21
Mr Z Mheyamwa (CFO)***	5	5	2	2	2	1	17
Ms K Parirenyatwa (IND ARC)		5					5
Ms M Ramonyai (IND ARC)**	1	2				1	4
Ms S Mzizi (IND ARC)		5					5
Ms M Mojapelo (Retired)	3		2	1		1	7
Ms N Batyi (Retired)		2			2		4
Mr H Msimang (Resigned)	3	1	1				5
Prof. B Twala (Retired)	3		2		2		7
Mr K Shubane (Retired)	4				1	3	8
Mr S Mbedzi (Retired)			1				1

***** Other meetings attended relate to the Chairpersons quarterly meeting with the MMC for transport

****** The Independent Audit and Risk committee member was only appointed in March 2016.

******* The Executive Directors attend all board and committee meetings.

Directors' Report

10.10 Audit and risk committee

The committee met 6 times during the financial year to review matters necessary to fulfil its role.

Members of the Audit and Risk Committee are Ms S Yanguya (Chairperson and NED), Ms K Parirenyatwa (Independent), Ms S Mzizi (Independent), Ms M Ramonyai (Independent) and Mr P Mmope (NED).

In terms of Section 166 of the Municipal Finance Management Act, The City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the Audit and Risk Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, Municipal Finance Management Act requires that the parent municipalities should appoint further members of the entity's audit committees who are not directors of the municipal entity onto the audit committee.

10.11 Internal audit

The entity has co-sourced its internal audit function to PricewaterhouseCoopers (PwC). This is in compliance with the Municipal Finance Management Act, 2003.

11. CONTROLLING ENTITY

The entity's controlling entity is The City of Johannesburg Metropolitan Municipality incorporated in South Africa.

12. BANKERS

The company's banker is the Standard Bank of South Africa Limited (SBSA), in terms of the agreement with the City of Johannesburg Metropolitan Municipality and its subsidiaries.

The management of the Treasury function within the company is managed by the Johannesburg Metropolitan Municipality Assets and Liabilities Committee and Treasury department.

13. AUDITORS

Auditor General of South Africa - Johannesburg will continue in office for the next financial period in accordance with the Public Audit Act no. 25, section 92 of the Municipal Financial Management Act no. 56 of 2003 and section 90 of the Companies Act 71 of 2008.

Company Secretary's Certification

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

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the CIPC, for the year ended 30 June 2016, all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Karen Brits
Company Secretary

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Inventories	2	12 556 497	12 323 717
Receivables from exchange transactions	4	196 370 998	5 977 994
Prepayments	6	4 749 437	4 092 398
Insurance fund	10	3 436 644	1 447 779
Cash and cash equivalents	7	177 279	277 998
		217 290 855	**24 119 886**
Non-Current Assets			
Property, plant and equipment	8	558 052 502	271 461 655
Intangible assets	9	4 822 214	3 223 855
Loans to shareholders	3	28 926 970	29 485 294
		591 801 686	**304 170 804**
Total Assets		**809 092 541**	**328 290 690**
Liabilities			
Current Liabilities			
Loans from shareholders	3	424 152 840	278 397 598
Other financial liabilities	11	29 912 945	21 696 318
Finance lease obligation	12	1 343 728	1 056 370
Payables from exchange transactions	13	166 734 693	121 445 762
Deferred income	14	3 951 536	4 264 490
Provisions	15	12 947 880	10 811 733
		639 043 622	**437 672 271**
Non-Current Liabilities			
Other financial liabilities	11	324 337 790	2 893 556
Finance lease obligation	12	735 342	2 070 296
Employee benefit obligation	5	16 535 470	19 806 108
		341 608 602	**24 769 960**
Total Liabilities		**980 652 224**	**462 442 231**
Net Assets		**(171 559 683)**	**(134 151 541)**
Share capital	16	54 774 330	54 774 330
Reserves			
Revaluation reserve	17	115 658 653	121 495 118
Accumulated defecit		(341 992 666)	(310 420 989)
Total Net Assets		**(171 559 683)**	**(134 151 541)**

The accounting policies on pages 18 to 35 and the notes on pages 36 to 58 form an integral part of the annual financial statements.

Statement of Financial Performance for the period ended 30 June 2016

Amounts in Rand	Note(s)	2016	2015
Revenue			
Revenue from exchange transactions			
Rendering of services		105 878 682	102 365 043
Actuarial gain		2 408 921	12 234 497
Other income		3 183 316	2 549 120
Interest received - investment	20	1 881 439	1 616 354
Total revenue from exchange transactions		**113 352 358**	**118 765 014**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		432 693 000	400 637 040
Total revenue		**546 045 358**	**519 402 054**
Expenditure			
Employee related costs	19	(282 554 327)	(271 111 145)
Depreciation and amortisation		(51 374 327)	(38 818 861)
Impairment of assets and inventory		(1 460 263)	(1 877 522)
Finance costs	21	(36 567 139)	(17 871 454)
Lease rentals on operating lease		(17 019 577)	(30 507 459)
Debt Impairment		(225 780)	-
Repairs and maintenance		(52 682 456)	(70 932 038)
Diesel		(60 066 226)	(75 745 712)
Insurance		(5 327 724)	(3 065 931)
General Expenses	35	(68 226 938)	(84 428 406)
Total expenditure		**(575 504 757)**	**(594 358 528)**
Operating deficit	18	**(29 459 399)**	**(74 956 474)**
Loss on disposal of assets		(3 517 085)	(5 954 724)
Deficit for the year		**(32 976 484)**	**(80 911 198)**

Johannesburg Metropolitan Bus Services SOC Limited

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Statement of Changes in Net Assets

Figures in Rand	Note(s)	Share capital	Share premium	Total share capital	Revaluation Reserve	Accumulated deficit	Total net assets
Opening balance as previously reported		13 726 387	41 047 943	54 774 330	82 308 607	(232 245 835)	(95 162 898)
Balance at 01 July 2014 as restated		**13 726 387**	**41 047 943**	**54 774 330**	**82 308 607**	**(232 245 835)**	**(95 162 898)**
Changes in net assets							
Deficit for the year		-	-	-	-	(80 911 198)	(80 911 198)
Realisation of revaluation reserve to retained earnings		-	-	-	(2 736 044)	2 736 044	-
Revaluations for the year		-	-	-	41 922 555	-	41 922 555
Total changes		-	-	-	39 186 511	(78 175 154)	(38 988 643)
Balance at 01 July 2015		**13 726 387**	**41 047 943**	**54 774 330**	**121 495 118**	**(310 420 989)**	**(134 151 541)**
Changes in net assets							
Deficit for the year		-	-	-	-	(32 976 484)	(32 976 484)
Realisation of revaluation reserve to retained earnings		-	-	-	(1 404 807)	1 404 807	-
Revaluation for the year		-	-	-	(4 431 658)	-	(4 431 658)
Total changes		-	-	-	(5 836 465)	(31 571 677)	(37 408 142)
Balance at 30 June 2016		**13 726 387**	**41 047 943**	**54 774 330**	**115 658 653**	**(341 992 666)**	**(171 559 683)**

Cash Flow Statement for the year ended 30 June 2016

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Grants		431 974 000	400 356 735
Receipts from rendering of passenger services		106 432 017	124 321 684
Interest received - investment		1 881 439	1 616 354
		540 287 456	526 294 773
Payments			
Employee costs		(285 933 033)	(283 748 954)
Suppliers		(294 151 032)	(184 404 375)
Finance costs		(36 567 139)	(17 871 454)
Other payments		(47 702 396)	(75 745 712)
		(664 353 600)	(561 770 495)
Net cash flows from operating activities	22	**(124 066 144)**	**(35 475 722)**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(346 745 208)	(25 093 833)
Proceeds from sale of property, plant and equipment	8	-	119 999
Purchase of other intangible assets	9	(2 227 331)	(301 289)
Movement in insurance fund		(1 988 865)	-
Net cash flows from investing activities		**(350 961 404)**	**(25 275 123)**
Cash flows from financing activities			
Receipt /(Repayment) of other financial liabilities		329 660 861	(19 746 831)
Financing from shareholders loan		146 313 566	81 422 784
Finance lease payments		(1 047 596)	2 017 713
Net cash flows from financing activities		**474 926 831**	**63 693 666**
Net increase/(decrease) in cash and cash equivalents		**(100 719)**	**206 761**
Cash and cash equivalents at the beginning of the year		277 998	71 237
Cash and cash equivalents at the end of the year	7	**177 279**	**277 998**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rendering of services	180 549 000	(24 000 000)	**156 549 000**	105 878 682	**(50 670 318)**	1
Acturial gain	-	-	**-**	2 408 921	**2 408 921**	1
Other income	-	-	**-**	3 183 316	**3 183 316**	1
Interest received (paid) - investment	-	-	**-**	1 881 439	**1 881 439**	
Total revenue from exchange transactions	**180 549 000**	**(24 000 000)**	**156 549 000**	**113 352 358**	**(43 196 642)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants	431 474 000	1 219 000	**432 693 000**	432 693 000	**-**	
Total revenue	**612 023 000**	**(22 781 000)**	**589 242 000**	**546 045 358**	**(43 196 642)**	
Expenditure						
Employee Related costs	(285 374 000)	(1 219 000)	**(286 593 000)**	(282 554 327)	**4 038 673**	2
Depreciation and amortisation	(48 723 000)	(15 000 000)	**(63 723 000)**	(51 374 327)	**12 348 673**	3
Impairment losses	-	-	**-**	(1 460 263)	**(1 460 263)**	
Finance costs	(37 150 000)	2 669 000	**(34 481 000)**	(36 567 139)	**(2 086 139)**	4
Contracted services	(41 992 000)	10 600 000	**(31 392 000)**	(17 019 577)	**14 372 423**	6
Allowance for impairment of current receivables	-	-	**-**	(225 780)	**(225 780)**	
Repairs and maintenance	(53 793 000)	-	**(53 793 000)**	(52 682 456)	**1 110 544**	5
Diesel	(85 841 000)	-	**(85 841 000)**	(60 066 226)	**25 774 774**	7
Insurance	(5 355 000)	-	**(5 355 000)**	(5 327 724)	**27 276**	
General Expenses	(53 795 000)	25 731 000	**(28 064 000)**	(68 226 938)	**(40 162 938)**	8
Total expenditure	**(612 023 000)**	**22 781 000**	**(589 242 000)**	**(575 504 757)**	**13 737 243**	
Operating deficit	**-**	**-**	**-**	**(29 459 399)**	**(29 459 399)**	
Loss on disposal of assets	-	-	**-**	(3 517 085)	**(3 517 085)**	
Deficit before taxation	**-**	**-**	**-**	**(32 976 484)**	**(32 976 484)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**-**	**-**	**(32 976 484)**	**(32 976 484)**	

Statement of Comparison of Budget and Actual Amounts

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

1. **Revenue from rendering of services**: To provide a daily optimal service to its customers, Metrobus needs 388 buses to be fully operational but as a result of a shortfall of 100 buses on a daily basis, which were out of commission for a variety of reasons, mainly because of the age of the buses not all scheduled trips were undertaken. The other income and acturial gains were not budgeted due to the uncertainity of the receipts. Actuarial gains declined in the current year due to negligable movement in the number of employees benefiting from this scheme.

2. Employee Related Costs: Employees related costs were underspent due delay in filling some of the funded vacant positions:

3. Depreciation: Savings were realised on depreciation due to delay in delivery of the new buses. The budget had assumed that all the buses were to be delivered before 31 December 2015

4. **Finance Costs**: Finance costs increased due increased overdraft utilised to fund operating expenditure resulting from failure to meet revenue targets and finance charges on bus acquisition loans..

5. Repairs and Maintenance: Increase in Repairs and Maintenance were due to repairs and maintenance of the old fleet as the majority of the new acquired buses were not yet delivered.

6. Contracted Services: Leasing of Mercedez Benz buses came at a lower cost than initially budgetted for, in addition only 15 buses have been leased instead of the 25 budgeted for. In additon the use of Jozi@work was significantly lower than previous cleaning tenders and the entity has significantly reduced reliance on us consultants.

7. Diesel expenses: The savings were as a result of improved controls and lower crude oil prices.

8. General expenses: This increased due to the cost of licensing of new buses, increased tyres charges and increased water charges.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

These annual financial statements have been prepared in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

1.1 Going concern assumption

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

1.2 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 formulation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Allowance for slow moving, damaged and obsolete stock

An allowance is made to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus (deficit) note.

Fair value estimation

The carrying value 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 entity for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Management judgement is required to assess future work performance scores in order to determine what the possible bonus payments in future periods will be. Management uses historical information for this assessment. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Useful lives of depreciable non current assets

The entity's management determines the estimated useful lives and related depreciation charges for depreciable non current assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.Refer to note 8

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 income include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity 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. Additional information is disclosed in Note 5.

Effective interest rate

The entity used the discounting rate provided by the treasury function of the City of Johannesburg for future cash flows which is the average rate of the sweeping account.

Allowance for impairment of trade and other receivables

An impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.3 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and buildings and specialised vehicles which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Accounting Policies

1.3 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	8 - 35 years
Plant and machinery	Straight line	2 - 25 years
Furniture and fixtures	Straight line	1 - 25 years
Leased motor vehicles	Straight line	3 - 20 years
Office equipment	Straight line	2 - 20 years
IT equipment	Straight line	1 - 12 years
Leasehold improvements	Straight line	8 - 30 years
Fare collection equipment	Straight line	4 - 18 years
Specialised vehicles	Straight line	2 - 40 years
Tools and loose gear	Straight line	2 - 22 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

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.

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

Accounting Policies

1.4 Intangible assets (continued)

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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.

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

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

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

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	4 - 20 years

1.5 Financial instruments

Classification

The entity classifies financial instruments, or their component part , on initial recognition as a financial assets, a financial liabilities or an equity instrument in accordance with the subject of the contractual agreement.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Fair value determination

Accounting Policies

1.5 Financial instruments (continued)

If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to (from) shareholders

These include loans to and from shareholders and are recognised initially at fair value plus direct transaction costs.
Loans to (from) shareholders are classified as financial liabilities measured at amortised cost.

Receivables from exchange transactions

Trade receivables 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 surplus or deficit 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 (more than 30 days overdue) are considered indicators that the trade receivable is 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 recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as financial liabilities 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.

1.5 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 measured at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:
- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the entity could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Accounting Policies

1.5 Financial instruments (continued)

Financial liabilities

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

Impairment of financial assets

The entity assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 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 - lessee

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

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

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

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

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.

Accounting Policies

1.7 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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.

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

Inventories includes consumable stores , spare parts, diesel, work in progress and stationery.

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

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

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

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

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

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the entity:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:
(a) the period of time over which an asset is expected to be used by the entity; or

Accounting Policies

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

(b) the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

1.10 Employee benefits

Short-term employee benefits

Short term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

The short term employee benefits includes items such as salaries, paid vacation leave , sick leave, bonuses, and non-monetary benefits such as medical care.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short term employee benefits expected to be paid in exchange for that service as a liability or as an expense,unless another standard requires or permits the inclusion of the benefits in the cost of asset.

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.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

The entity provides defined benefit plans (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.

Certain pension funds allow members to purchase additional service in terms of the fund’s rules. This is reflected in the statement of financial performance when the expense is incurred.

The economic entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

Actuarial gains and losses comprise experience adjustments (effects of differences between the previous actuarial assumptions and what actually occured) and the effects of changes in actuarial assumptions.Actuarial gains and losses are recognised in full in the period in which they arise as income or expenditure for all defined benefit plans.

The projected unit credit method has been used to value the liability .

1.11 Provisions and contingencies

Provisions are recognised when:

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

The provision is made up of the provision for bonus (13th cheque)

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.

Accounting Policies

1.11 Provisions and contingencies (continued)

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

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

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.

Contingent assets and contingent liabilities are not recognised.

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 entity 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 entity 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 entity considers that an outflow of economic resources is probable, an entity 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.

1.12 Revenue from exchange transactions

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

Accounting Policies

1.12 Revenue from exchange transactions (continued)

An exchange transaction is one in which the entity 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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity 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 entity; 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 entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue: The Company will only recognise the revenue for the services already delivered. It will provide for deferred income (income received in advance) where payments were received, but services were not yet delivered. .

1.13 Revenue from non-exchange transactions

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

Revenue from non exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay amount.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Grants and subsidy

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.14 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.15 Comparative figures

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

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

1.17 Fruitless and wasteful expenditure

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

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

1.18 Irregular expenditure

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

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

Accounting Policies

1.18 Irregular expenditure (continued)

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

1.19 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised through a transfer from the revaluation reserve to the accumulated surplus/deficit on disposal of the revalued property, plant and equipment. The net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.20 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the entity when the gratuity is paid.

1.21 Budget information

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

General purpose financial reporting by entity 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 2015/07/01 to 2016/06/30.

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.

1.22 Related parties

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

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Johannesburg Metropolitan Bus Services SOC Limited is an entity of the City of Johannesburg Metropolitan Municipality incorporated in South Africa. Refer to note 25 for the list of the related parties (other entities owned by The City) and the outstanding balances for transactions entered into during the year.

Accounting Policies

1.23 Deferred Income

Revenue recieved in advance is recognised as income to the extent that the entity complied with any of the criteria, conditions embodied in the agreement. To the extent that the criteria,conditions or obligations have not been met a liability is recognised.

1.24 Prepayments

Prepayments consists mainly of licenses for Vehicles and Buses and Software licenses which are payable on an annual basis. The costs are being released to the Statement of Financial Performance over a period relating to the prepayment.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. Inventories

Consumable stores	241 993	257 171
Spare parts	19 696 290	14 159 787
Tag stock	1 016 601	1 079 953
Fuel (Diesel, Petrol)	1 229 934	1 367 213
Less: Provision for obsolescence	(9 628 321)	(4 540 407)
	12 556 497	**12 323 717**

2.1 Inventories recognised as an expense during the year

Diesel	60 066 226	75 745 712
Spare parts	40 138 368	59 622 167
	100 204 594	**135 367 879**

Provision for obsolescence stock is made up of:

1) Spare parts that are obsolete R1.3 million; (2015 : R1.4 million).
2) Slow moving stock of R8.3 million; (2015 : R 3.1 million) that might in future periods not realise its value.

Diesel expenditure:

Management has implemented tight controls over excessive diesel consumption, which will limit possible pilferage or thef across all the depots. The tight controls implemented and reduction in diesel prices has let to a significant reduction in diesel usage.

3. Loans to/(from) shareholders

City of Johannesburg Metropolitan Municipality - Notional loans These are non interest bearing loans with no repayment conditions. They relate to the Post retirement Liabilities of employees who were transferred from the parent municipality at formation, refer to note 5 for further breakdown of the balance.	28 926 970	29 485 294
City of Johannesburg Metropolitan Municipality - Sweeping account A loan paying interest at Prime less 4.5% with no repayment conditions. The movement is due to loan repayments that fell due during the year, as well as the losses incurred.	(424 152 840)	(278 397 598)
	(395 225 870)	**(248 912 304)**

Non-current assets	28 926 970	29 485 294
Current liabilities	(424 152 840)	(278 397 598)
	(395 225 870)	**(248 912 304)**

Credit quality of loans to shareholders

The credit quality of loans to shareholders that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

Fair value of loans to and from shareholders

Loans to shareholders	28 926 970	29 485 294

Sweeping account

Loans at beginning of the year	(278 397 598)	(197 931 849)
Receipts	687 257 345	546 633 449
Payments	(833 012 587)	(627 099 198)
	(424 152 840)	**(278 397 598)**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Receivables from exchange transactions

	2016	2015
Trade debtors	3 821 438	16 146 904
Staff debtors	3 708 185	350 953
Deposits	11 264	20 702
Provision for impairment	(311 442)	(13 220 289)
Sundry debtors	2 718 690	2 243 377
Insurance debtor	(90)	20 894
Operating lease asset	-	135 114
Other intercompany debtors	186 422 953	280 339
	196 370 998	**5 977 994**

Other intercompany debtors

Other intercompany debtors relates to capital commitments from the City of Johannesburg which had not been paid as at year-end. The capital commitments mainly relates to refleeting of the organisation.

Trade debtors

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2016 R 1 634 236 (2015:R 1 391 435) were past due but not impaired.

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

	2016	2015
1 month past due	734 598	783 041
2 months past due	355 709	602 321
3 months past due	543 929	6 073

Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 311 442 (2015: R 13 220 289) were impaired and provided for.

The ageing of these amounts are as follows:

	2016	2015
1 to 6 months	3 220 940	2 157 355
Over 6 months	600 492	13 989 545

Reconciliation of provision for impairment of trade and other receivables

	2016	2015
Opening balance	13 220 289	13 220 289
Provision for impairment	225 780	-
Amounts written off as uncollectible	(13 134 627)	-
	311 442	**13 220 289**

The additional amount provided for, of R225 780 relates to insurance claims which are long outstanding.

	Government Entities	Business	Other debtors	Total
1 - 30 days	146 160	1 440 544	-	1 586 704
31-60 days	430 930	303 668	-	734 598
61-90 days	137 157	218 552	-	355 709
91-180 days	75 000	468 929	-	543 929
181-360 days	25 780	52 259	-	78 039
+361 days	429 206	73 351	19 896	522 453
	1 244 233	**2 557 303**	**19 896**	**3 821 432**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Employee benefit obligations

5.1 Defined benefit plan

Post-retirement liability		
Post-Retirement Medical Aid Plan	(4 492 554)	(6 655 592)
Post-Retirement Housing Subsidy Plan	(182 962)	(30 513)
Retirement Gratuity Plan	(11 859 954)	(13 120 003)
	(16 535 470)	**(19 806 108)**

5.1.1 Post retirement medical aid plan

Movements for the 12 months

Opening balance	6 655 592	19 697 000
Net expense recognised in the statement of financial performance	(2 036 980)	(13 041 408)
	4 618 612	**6 655 592**

Net expense recognised in the statement of financial performance

Current service cost	61 495	712 000
Interest cost	540 828	1 772 000
Actuarial gains	(2 517 099)	(15 403 204)
Benefits paid	(122 204)	(122 204)
	(2 036 980)	**(13 041 408)**

Notional loan account

Opening balance	23 597 867	22 380 982
Interest received	1 550 421	1 339 089
Benefits payments	(248 262)	(122 204)
Balance at end of year	**24 900 026**	**23 597 867**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Employee benefit obligations (continued)

Key assumptions used

The principal actuarial assumptions used were as follows on 30 June 2015.

Discount rates used	8,55 %	7,60 %
Expected rate of return on assets	8,55 %	7,60 %
Expected increase in salaries	8,55 %	7,60 %

Other assumptions:

Age of spouse	-	Husbands 5 Years older than wives.
Pre-retirement Mortality	-	In accordance with the SA 85-90 ultimate table
Post-retirement Mortality	-	In accordance with the PA(90) ultimate tables

5.1.2 Post retirement housing subsidy plan

Movements for the 12 months

Opening balance	30 513	221 000
Net expense recognised in the statement of financial performance	152 449	(190 487)
	182 962	**30 513**

Net expense recognised in the statement of financial performance

Current service cost	961	7 000
Interest cost	2 507	20 000
Actuarial gains/(loss)	148 981	(217 487)
	152 449	**(190 487)**

Key assumptions used

Assumptions used on last valuation on 30 June 2015.

Discount rates used	8,55 %	7,60 %
Expected rate of return on assets	8,55 %	7,60 %
Expected increase in salaries	8,55 %	7,04 %

5.1.3 Post retirement gratuity plan

Amounts recognised in the Statement of financial position

Movements for the 12 months

Opening balance	13 120 003	11 436 000
Benefits paid	(2 191 500)	(2 583 191)
Net expense recognised in the statement of financial performance	968 171	4 267 194
	11 896 674	**13 120 003**

Net expense recognised in the statement of financial performance

Interest cost	972 254	881 000
Actuarial losses	(4 083)	3 386 194
	968 171	**4 267 194**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Employee benefit obligations (continued)

Notional loan account

Opening balance	5 887 436	8 054 823
Interest received	331 017	415 804
Benefits payments	(2 191 500)	(2 583 191)
Balance at end of year	**4 026 953**	**5 887 436**

Key assumptions used

Assumptions used on last valuation on 30 June 2015.

Discount rates used	8,55 %	7,60 %
Expected rate of return on assets	8,55 %	7,60 %
Expected increase in salaries	8,55 %	7,60 %

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(16 535 470)	(19 806 108)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	19 806 108	31 354 000
Benefits paid	(2 191 500)	(2 583 191)
Net expense recognised in the statement of financial performance	(830 876)	(8 964 701)
Closing balance	**16 783 732**	**19 806 108**

Net expense recognised in the statement of financial performance

Current service cost	62 456	719 000
Interest cost	1 515 589	2 673 000
Actuarial (gains) / losses	(2 408 921)	(12 356 701)
Total included in employee related costs	**(830 876)**	**(8 964 701)**

6. Prepayments

Prepayments consists of:		
Vehicles and bus licences	4 722 339	3 908 461
Software licences and others	27 098	183 937
	4 749 437	**4 092 398**

The prepayments of expenditure is amortised to the Statement of Financial Peformance over a period relating to the prepayment.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	44 467	70 478
Bank balances	132 812	207 520
	177 279	**277 998**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Cash and cash equivalents (continued)

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Current Main Account - 405 439 4833	-	-	-	-	1 065	1 065
SBSA Main Account - 197157	-	-	-	(87 064)	(80 544)	(104 064)
SBSA Salaries Account - 197203	-	-	1	-	-	-
SBSA Charges Account - 197130	-	1	-	-	-	-
ABSA Salaries Account - 405 439 4841	-	1	-	-	-	-
Petty cash and cash floats	-	-	-	46 794	70 478	-
SBSA Main Unapplied receipts	-	-	-	(1 044)	-	-
Salaries Confirmed Receipts	-	-	-	219 876	-	-
SBSA Main account receipts	-	-	-	(1 054)	-	-
Total	**-**	**2**	**1**	**177 508**	**(9 001)**	**(102 999)**

Notes to the Annual Financial Statements

Figures in Rand

8. 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	32 760 000	-	32 760 000	32 760 000	-	32 760 000
Buildings	56 814 185	(17 939 443)	38 874 742	56 796 548	(8 954 553)	47 841 995
Leasehold property	1 147 181	(555 223)	591 958	1 164 842	(520 724)	644 118
Plant and machinery	12 416 104	(4 453 960)	7 962 144	5 801 635	(4 129 267)	1 672 368
Furniture and fixtures	527 047	(363 084)	163 963	3 897 569	(2 649 451)	1 248 118
Motor vehicles	6 817 574	(4 819 335)	1 998 239	6 817 574	(3 653 605)	3 163 969
Office equipment	749 477	(602 447)	147 030	1 009 301	(715 687)	293 614
IT equipment	6 833 275	(5 293 366)	1 539 909	7 053 140	(5 264 949)	1 788 191
Other property, plant and equipment	24	(24)	-	-	-	-
Work in progress (Buses)	-	-	-	34 013 500	-	34 013 500
Fixed Assets Clearing	131 984	-	131 984	106 996	-	106 996
Fare collection equipment	7 502 284	(7 183 773)	318 511	7 566 236	(7 059 197)	507 039
Specialised vehicles	540 884 949	(67 451 965)	473 432 984	171 452 028	(24 363 638)	147 088 390
Tools and loose gear	1 328 633	(1 197 595)	131 038	1 508 249	(1 174 892)	333 357
Total	**667 912 717**	**(109 860 215)**	**558 052 502**	**329 947 618**	**(58 485 963)**	**271 461 655**

Reconciliation of property, plant and equipment - 2016

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	32 760 000	-	-	-	-	-	32 760 000
Buildings	47 841 995	-	-	-	(8 967 253)	-	38 874 742
Leasehold property	644 118	-	-	-	(52 160)	-	591 958
Plant and machinery	1 672 368	2 133 889	(108 891)	5 000 000	(735 222)	-	7 962 144
Furniture and fixtures	1 248 118	108 489	(735 312)	-	(457 332)	-	163 963
Motor vehicles	3 163 969	-	-	-	(1 165 730)	-	1 998 239
Office equipment	293 614	19 875	(72 258)	-	(94 201)	-	147 030
IT equipment	1 788 191	544 956	(127 146)	-	(666 092)	-	1 539 909
Work in progress (Buses)	34 013 500	-	-	(34 013 500)	-	-	-
Fixed clearing account	106 996	24 988	-	-	-	-	131 984
Fare collection equipment	507 039	-	(940)	-	(187 588)	-	318 511
Specialised vehicles	147 088 390	343 885 142	(2 448 488)	29 013 500	(38 213 639)	(5 891 921)	473 432 984
Tools and loose gear	333 357	27 869	(24 050)	-	(206 138)	-	131 038
	271 461 655	**346 745 208**	**(3 517 085)**	**-**	**(50 745 355)**	**(5 891 921)**	**558 052 502**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Revaluations	Non-Exchange transactions	Depreciation	Impairment loss	Total
Land	22 699 000	-	-	-	10 061 000	-	-	-	32 760 000
Buildings	36 463 131	199 722	-	188 114	19 945 581	-	(8 954 553)	-	47 841 995
Leasehold property	886 267	-	-	(188 114)	-	-	(54 035)	-	644 118
Plant and machinery	1 668 332	421 126	(17 351)	1 599	-	151 514	(552 852)	-	1 672 368
Furniture and fixtures	1 520 246	143 301	(19 603)	(14 459)	-	94 985	(476 352)	-	1 248 118
Motor vehicles	1 540 040	2 203 202	-	-	-	-	(579 273)	-	3 163 969
Office equipment	395 767	-	(7 581)	(16 280)	-	33 683	(111 975)	-	293 614
IT equipment	2 579 267	714 782	(79 853)	45 685	-	68 201	(1 539 891)	-	1 788 191
Work in progress (Buses)	-	34 013 500	-	-	-	-	-	-	34 013 500
Fixed assets clearing account	106 996	-	-	-	-	-	-	-	106 996
Fare collection equipment	774 825	-	(4 672)	-	-	-	(263 114)	-	507 039
Specialised vehicles	110 966 599	57 229 904	(5 934 406)	-	11 552 609	-	(25 536 541)	(1 189 775)	147 088 390
Tools and loose gear	463 000	107 064	(11 257)	(16 545)	-	14 982	(223 887)	-	333 357
	180 063 470	**95 032 601**	**(6 074 723)**	**-**	**41 559 190**	**363 365**	**(38 292 473)**	**(1 189 775)**	**271 461 655**

Figures in Rand	2016	2015

8. Property, plant and equipment (continued)

Pledged as security

	2016	2015
2006 Mercedes Benz Buses Used to secure borrowings granted by the City of Johannesburg Metropolitan Municipality (127 buses)	-	42 047 966

Valuer details

Land and buildings are re-valued independently every 3 years. The revaluations took place in the prior financial year, the valuation was performed by SCB Property Valuers and Consultants, an independent valuer appointed by Metrobus. The values were determined with reference to the current market prices taking similar buildings into account.

Specialised vehicles are revalued on a three year basis.
The last valuation was performed by AssetVal, an independent valuer appointed by Metrobus and this valuation was done in the financial year 2014/2015. The values were determined with reference to the vehicles active market prices taking into account kilometers travelled and other factors.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	11 923 107	(7 100 893)	4 822 214	9 695 776	(6 471 921)	3 223 855

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	3 223 855	2 227 331	(628 972)	4 822 214

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	3 448 960	301 289	(526 394)	3 223 855

10. Insurance fund

Movement for the year		
Opening balance	1 447 779	1 907 226
Contributions to the fund	3 000 000	-
Claims against the fund	(1 011 135)	(459 447)
	3 436 644	**1 447 779**

The company has a Bus Fleet Self Insurance Fund which is administered by AON, an insurance fund administrator. Contributions to this insurance contingency fund are made at the discretion of the company's directors. The premiums paid into AON belong to the City for as long as no claims are incurred for those premiums. The premiums payable by Metrobus for this self insurance arrangement is used for the payment of insurance excesses applicable on the Metrobus claim. Claims against the fund are processed as and when qualifying incidents occur.

In addition to this self insurance component, the company has another insurance arranged through AON, the City's appointed brokers. This insurance caters for all losses over and above the excesses refered above and expensed immediately.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Other financial liabilities

At amortised cost		
Structured loans	29 912 945	21 696 318
City of Johannesburg Metropolitan Municipality 2007 Capex Loan. The loan carries interest at 9% per annum and is repayable in fixed quarterly installments until 30 June 2017.		
Unsecured Loans	324 337 790	2 893 556
City of Johannesburg Metropolitan Municipality loans. The loans carry an average interest rate of 9.8% per annum and is repayable in fixed quarterly installments. The latest loan received will be fully paid on 30 June 2025.		
	354 250 735	**24 589 874**
Total other financial liabilities	**354 250 735**	**24 589 874**
Non-current liabilities		
At amortised cost	324 337 790	2 893 556
Current liabilities		
At amortised cost	29 912 945	21 696 318

12. Finance lease obligation

Minimum lease payments due		
- within one year	1 783 947	1 056 370
- in second to fifth year inclusive	798 177	2 952 239
	2 582 124	4 008 609
less: future finance charges	(503 054)	(881 943)
Present value of minimum lease payments	**2 079 070**	**3 126 666**
Present value of minimum lease payments due		
- within one year	1 343 728	1 056 370
- in second to fifth year inclusive	735 342	2 070 296
	2 079 070	**3 126 666**
Non-current liabilities	735 342	2 070 296
Current liabilities	1 343 728	1 056 370
	2 079 070	**3 126 666**

It is the entity policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 17% (2015: 17%).

All leases have fixed repayments.

The entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

13. Payables from exchange transactions

Trade payables and Accruals	152 193 076	112 865 181
Accrued leave pay	8 799 647	8 045 586
Other accrued expenses	66 984	(1)
Sundry creditors	5 674 986	534 996
	166 734 693	**121 445 762**

Figures in Rand	2016	2015

13. Payables from exchange transactions (continued)

In current financial year the Trade payables and Accrual increased significantly due to the following :
- Purchase of new buses.
- Water back- log in arrears.

14. Deferred income

Deferred income refers to the liability relating to passenger trips sold in advance through the Smartcards Multi-Journey Software. The deferred income is released as and when the passengers present these cards on the buses and the bus operators issue a ticket accordingly.

Movement during the 12 months

	2016	2015
Balance at the beginning of the year	4 264 490	4 544 795
Increase (decrease) during the year	(312 954)	(280 305)
	3 951 536	**4 264 490**

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Provision for incentive bonus and 13th cheques	10 811 733	15 143 547	(13 007 400)	12 947 880

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for incentive bonus and 13th cheques	8 540 112	16 547 551	(14 275 930)	10 811 733

The provision is management's best estimate of the future performance bonus payout in respect of the past year based on past experience.

The bonus provision above includes provision for 13th cheque of R8,405,941 (2015: R9,720,717) and performance incentives of R4,541,938 (2015: R1,091,016)

The provision for service bonuses is expected to be realised during November 2016, as the annual service bonuses are paid to employees during November.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Share capital

Authorised

1 000 Ordinary shares of R1 each	1 000	1 000

Reconciliation of number of shares issued:

Reported as at 01 July 2015	2	2

998 unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

Issued

Ordinary	2	2
Ordinary Type A	13 726 385	13 726 385
Share premium	41 047 943	41 047 943
	54 774 330	**54 774 330**

17. Revaluation reserve

Assets are revalued to market values in terms of the articles of association. Revaluation reserves are classified as non-distributable reserves. The whole balance is treated as a non-distributable reserve, and consist of unrealised revaluation surpluses.

Opening balance	121 495 118	82 308 607
Change during the year	(5 836 465)	39 186 511
	115 658 653	**121 495 118**

The reduction in the revaluation reserve is a result of an impairment charge for assets which were previously revalued.

18. Operating deficit

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

Operating lease charges

Premises		
• Contractual amounts	734 206	562 429
Equipment		
• Contractual amounts	16 285 371	29 945 030
	17 019 577	**30 507 459**

Loss on sale of property, plant and equipment	(3 517 085)	(5 954 724)
Impairment on property, plant and equipment	1 460 263	1 189 775
Amortisation on intangible assets	628 971	526 394
Depreciation on property, plant and equipment	50 745 356	38 292 467
Employee costs	282 554 327	271 111 145

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

19. Employee related costs

Employee related costs : Salaries and wages	192 750 374	186 585 671
Employee related costs : Staff costs	119 327	165 169
Housing benefits and allowances	2 043 133	1 521 954
Overtime payments	21 317 415	18 344 552
Bonus	15 143 547	15 247 532
Travel, motor car, accommodation, subsistence and other allowances	4 214 742	3 990 886
Other payroll levies	12 598 998	12 646 411
Leave pay provision charge	2 914 559	(3 229 233)
Defined contribution plans	30 361 554	34 516 997
Board members fees and retainers	1 090 678	1 321 206
	282 554 327	**271 111 145**

Remuneration of Managing Director

Annual Remuneration	1 737 450	1 100 000
Contributions to UIF, Medical and Pension Funds	19 279	12 269
Other	12 000	8 000
	1 768 729	**1 120 269**

Remuneration of Former-Chief Financial Officer

Annual Remuneration	-	1 012 731
Car Allowance	-	11 000
Contributions to UIF, Medical and Pension Funds	-	69 573
Other	-	17 107
	-	**1 110 411**

Chief Financial Officer

Annual Remuneration	955 142	-
Contributions to UIF, Medical and Pension Funds	10 987	-
Other	8 692	-
	974 821	**-**

Appointed in October 2015.

Acting Chief Financial Officer (Deputy Chief Financial Officer)

Annual Remuneration	167 776	643 409
Car Allowance	-	192 000
Contributions to UIF, Medical and Pension Funds	33 435	63 206
Other	48 000	61 935
	249 211	**960 550**

Acted until October 2015.

General Manager (Human Resources)

Annual Remuneration	965 079	891 116
Car Allowance	117 600	117 600
Contributions to UIF, Medical and Pension Funds	64 687	58 867
Other	12 000	16 813
	1 159 366	**1 084 396**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

19. Employee related costs (continued)

Chief Audit Executive

	2016	2015
Annual Remuneration	981 672	833 800
Car Allowance	120 000	110 000
Contributions to UIF, Medical and Pension Funds	12 681	10 964
Other	12 000	11 000
	1 126 353	**965 764**

Former Company Secretary

	2016	2015
Annual Remuneration	490 898	675 260
Car Allowance	56 000	84 000
Contributions to UIF, Medical and Pension Funds	9 627	9 364
Other	5 000	15 462
	561 525	**784 086**

In the position until December 2015.

Chief Information Officer

	2016	2015
Annual Remuneration	1 108 440	728 000
Car Allowance	60 000	-
Contributions to UIF, Medical and Pension Funds	13 196	8 549
Other	12 000	8 000
	1 193 636	**744 549**

Company Secretary

	2016	2015
Annual Remuneration	654 035	-
Contributions to UIF, Medical and Pension Funds	6 877	-
Other	41 499	-
	702 411	**-**

Appointed in December 2015.

Former General Manager: Operations

	2016	2015
Annual Remuneration	481 297	899 879
Car Allowance	20 864	41 728
Contributions to UIF, Medical and Pension Funds	127 610	177 454
Other	6 000	17 051
	635 771	**1 136 112**

Contract expired in December 2015.

General Manager: Technical

	2016	2015
Annual Remuneration	1 140 538	528 741
Contributions to UIF, Medical and Pension Funds	50 137	20 567
Other	12 000	5 000
	1 202 675	**554 308**

General Manager: Operations

	2016	2015
Annual Remuneration	293 680	-

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

19. Employee related costs (continued)

Car Allowance	64 000	-
Contributions to UIF, Medical and Pension Funds	46 415	-
Other	4 000	-
	408 095	**-**

Appointed in January 2016.

20. Investment revenue

Interest revenue

Interest earned from investments	1 881 439	1 616 354

Average earning or paying interest rate for the year is 6.75%

21. Finance costs

Non-current borrowings	36 567 139	17 871 454

The finance costs incured are from sweeping account and the loans from shareholder.

22. Cash generated from / (used in) operations

Deficit	(32 976 484)	(80 911 237)
Adjustments for:		
Depreciation and amortisation	51 374 327	38 818 861
Loss on disposal of assets	3 517 085	5 954 724
Impairment deficit	1 460 263	1 877 522
Debt impairment	225 780	-
Movements in retirement benefit assets and liabilities	(3 270 638)	(11 547 892)
Movements in provisions	2 136 147	2 271 621
movement in financial asset -non cash	-	459 447
Changes in working capital:		
Inventories	(232 780)	(3 965 442)
Receivables from exchange transactions	(190 393 002)	5 597 340
Consumer debtors	(225 780)	-
Prepayments	(657 039)	1 804 023
Payables from exchange transactions	45 288 931	4 445 616
Deferred income	(312 954)	(280 305)
	(124 066 144)	**(35 475 722)**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. Commitments

Commitments in respect of capital expenditure:

	2016	2015
Authorised and contracted		
• Property, plant and equipment	160 694 722	502 189 980
• Diesel	12 604 126	4 918 231
• Repairs and maintenance and others	5 723 199	5 026 242
• Other	9 194 717	11 616 424
	188 216 764	**523 750 877**

	2016	2015
Total capital commitments		
Already contracted for but not provided for	188 216 764	523 750 877

Operating leases - as lessee

	2016	2015
Minimum lease payments due		
- within one year	8 510 664	5 493 330
- in second to fifth year inclusive	-	213 179
	8 510 664	**5 706 509**

Operating leases – as lessee (Buildings)

	2016	2015
Minimum lease payments due		
Premises - Contractual amounts	91 872	948 628
Buses - Contractual amounts	8 418 792	2 543 257
Others	-	2 214 624
	8 510 664	**5 706 509**

24. Contingencies

Economic entity

2016

Employees Claims

The organisation is engaged in various cases involving employees. The organisation is confident that it will win these cases.

SARS Claims

SARS claim: There is a dispute between Metrobus and SARS over a claim by SARS that Metrobus underpaid UIF for the period from 2012 to 2015. Management feels that they have a strong case as all SARS returns filed for the period were paid. Management is of the opinion that this will not result in a liability. The UIF claimed as outstanding amounts to R116, 337.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Related parties

Relationships	
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (SOC) Ltd City of Johannesburg Property Company (Soc) Ltd City Power Johannesburg (SOC) Ltd Johannesburg City Parks (SOC) Ltd Johannesburg Development Agency (SOC) Ltd Johannesburg Metropolitan Bus Services (SOC) Ltd Johannesburg Roads Agency (SOC) Ltd Johannesburg Tourism Company NPC Johannesburg Water (SOC) Ltd Metropolitan Trading Company (SOC) Ltd Pikitup Johannesburg (SOC) Ltd Roodepoort City Theatre NPC The Johannesburg Civic Theatre (SOC) Ltd The Johannesburg Fresh Produce Market (SOC) Ltd The Johannesburg Zoo NPC Johannesburg Social Housing Company (SOC) Ltd

Related party balances

	2016	2015
Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	216 895 589	30 112 588
Johannesburg Water (Pty) Ltd	-	3 000
Johannesburg Development Agency (Pty) Ltd	6 320	9 340
	216 901 909	**30 124 928**
Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	21 221 171	20 194 690
Total loans from shareholders		
City of Johannesburg Metropolitan Municipality	799 624 742	302 987 467

Related party transactions

	2016	2015
Grants and subsidy from related parties		
City of Johannesburg Metropolitan Municipality (Subsidy)	432 693 000	400 637 000
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	51 444 729	32 452 741
Other receipts from related parties		
City of Johannesburg Metropolitan Municipality	4 661 280	3 144 694
Johannesburg City Parks (Pty) Ltd	5 820	12 050
Johannesburg Development Agency (Pty) Ltd	16 220	50 750
Johannesburg Social Housing Company (Soc) Ltd	-	8 520
Johannesburg Water (Pty) Ltd	5 250	19 120
	4 688 570	**3 235 134**
Interest paid to related party		
City of Johannesburg Metropolitan Municipality	35 849 269	17 442 956

Notes to the Annual Financial Statements

Figures in Rand

26. Directors' emoluments

No emoluments were paid to permanently employed executive directors or any individuals holding a prescribed office during the year.

Non-executive

2016

	Directors' fees	Total
K Shubane (Ex-Chairperson) *	111 799	111 799
D Baloyi	99 253	99 253
M Scott	43 356	43 356
Prof. B Twala	35 376	35 376
S Yanguya	140 324	140 324
K Sangoni	82 146	82 146
S P Mzizi	51 336	51 336
P Mmope	50 198	50 198
H Msimango	26 244	26 244
S Mbedzi	4 566	4 566
Z Mayaba	43 356	43 356
M Ramonyai	28 520	28 520
G Rapholo	47 914	47 914
N Batyi	20 540	20 540
M Moerane	77 583	77 583
M Mojapelo	65 029	65 029
K Mkhonta	43 356	43 356
N Mpofu (Chairperson) *	68 446	68 446
K Parirenyatwa	51 336	51 336
	1 090 678	**1 090 678**

The Ex-Chairperson for the financial year 2015/16 retired on 15 March 2016 and the current Chairperson was appointed on 15 March 2016.

2015

	Directors' fees	Total
A G Badela (Ex-Chairperson)	158 720	158 720
D Baloyi	39 352	39 352
Prof. B Twala	99 575	99 575
S Yanguya	155 992	155 992
K Sangoni	80 723	80 723
S P Mzizi	66 877	66 877
H Msimango	32 507	32 507
S Mbedzi	152 482	152 482
Mr K Shubane (Ex-Chairperson)	71 855	71 855
N Batyi	45 982	45 982
M Moerane	56 549	56 549
M Mojapelo	109 767	109 767
Y Gordhan	76 717	76 717
K Parirenyatwa	77 541	77 541
B Lombard	96 567	96 567
	1 321 206	**1 321 206**

27. Change in estimate

Property, plant and equipment

The useful life of IT equipment was estimated in 2015 to be 1 - 12 years. In the current period management have revised their estimate to 2 - 12 years. The effect of this revision has increased the depreciation charges for the current period by R219 104.

The useful life of specialised vehicles was estimated in 2015 to be 2 -40 years. Management has reviewed the useful lives for some of the assets under this category. The effect of this revision has decreased the depreciation charges for the current period by R2 326 061

28. Prior period errors

Management reclassified training in the current year from employee related costs to general expenses, this resulted in a reclassification of prior year comparative amounts.

Statement of financial performance		
Decrease in employee related costs	-	(1 089 917)
Increase in general expenses	-	1 089 917
	-	-

29. Risk management

Capital risk management

The entity's objective when managing capital is to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 3, 12, 11, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the entity monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Financial risk management

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

The entity’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity’s financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the City of Johannesburg Metropolitan Municipality. entity treasury identifies, evaluates and hedges financial risks in close co-operation with the entity’s operating units. The City of Johannesburg Metropolitan Municipality provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

29. Risk management (continued)

Credit risk

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Loans to shareholder	28 926 970	29 485 294
Trade and other receivables	16 956 063	16 146 899

Price risk / Market risk

The entity is exposed to commodity price risk regarding fuel. At present the company is investigating means to mitigate this risk but was unable to find measures to mitigate this risk for the past financial period, other than entering into a service agreement at the most favourable terms available with one of the major fuel suppliers.

Both diesel and bus part prices are also influenced by fluctuation in exchange rates. Management has very limited control over these fluctuations, but management does explore options to transfer risk of exchange rate fluctuations to suppliers by entering into fixed price contracts where ever possible.

30. Going concern

We draw attention to the fact that this entity is wholly dependent on The City of Johannesburg Metropolitan Municipality for continued funding of its operations. Should the subsidies be withdrawn, it is the opinion of management that the entity would not be in a position to continue as a going concern on its current mandate. The City of Johannesburg Metropolitan Municipality has continued to show strong support financially and management therefore has no reason to believe that the company would not be operating in the foreseeable future.

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

31. Transaction with an employee

SUPPLIER NAME	CIPC NAME	CIPC ID NO DIR	EMPL ID NO	EMPL NAME	EMPL NAME	AMOUNT
Mount Like Eagles General Trading	Lydia Rose Hariparsad	4907190166084	1 276	Hariparsa, Mr. Mahais	Inspector: Quality Assurance	74 774
	-	-	-	-	-	74 774
			1 276			**74 774**

32. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure current year	273 479	181 228
Approved by Council or condoned	-	(181 228)
	273 479	**-**

The fruitless and wasteful expenditure relates to fines which were levied on the organisation for late renewal of bus licences.

Notes to the Annual Financial Statements

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33. Irregular & Deviation expenditure

Reconciliation of irregular & Deviation expenditure

Opening balance	156 130 659	44 576 423
Irregular expenditure current year	31 638 583	111 554 236
	187 769 242	**156 130 659**

Irregular and deviations expenditure incurred: Irregular expenditure is yer to be condoned by National Treasury

Details of irregular expenditure – current year

Non-compliance with SCM Policy The irregular expenditure relate to proper tender procedures not being followed. The tender procedures are in process for all the contracts were proper tender procedures had previously not been followed. (Broken down as R22 634 177 from prior years and R888 812 from current year)	26 865 480	71 142 886
Contract amount exceeded. The irregular expenditure relate to contracts on which the contracted amounts have been exceeded. The expenditure is directly related to unexpected or unplanned bus breakdowns which cannot be foreseen, but which have to be fixed. The tender procedures have been completed in 100% of all contracts involving contract amounts being exceeded. .	4 773 103	40 411 350
	31 638 583	**111 554 236**

Details of deviation

Deviation	11 813 885	17 051 736

34. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	2 939 310	2 991 828

PAYE and UIF

Current year deductions	23 184 278	2 153 203
Amount paid - current year	(23 139 228)	(2 153 203)
	45 050	**-**

Pension and Medical Aid Deductions

Current year contributions	28 783 507	45 818 063
Amount paid - current year	(28 748 991)	(45 808 347)
	34 516	**9 716**

VAT

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

Notes to the Annual Financial Statements

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35. General Expenses

Advertising	2 953 794	4 022 368
Auditors Remuneration	2 666 367	2 991 828
Bank charges	404 970	657 523
Cleaning	2 877 563	4 611 676
Commission paid	3 721 623	3 748 136
Computer expenses	6 619 481	6 115 590
Consulting and professional fees	8 256 852	12 484 860
Donations	184 750	-
Entertainment	577 962	211 769
Conferences and seminars	62 035	12 900
Motor vehicle expenses	11 315 487	8 971 165
Recruitment fees	996 847	349 642
Postage and courier	924	921
Printing and stationery	477 534	581 092
Royalties and license fees	125 815	188 303
Security (Guarding of municipal property)	7 984 586	7 249 510
Subscriptions and membership fees	171 426	18 156
Telephone and fax	2 523 805	2 393 260
Training	4 269 333	1 089 917
Travel - local	1 345	83
Electricity	2 965 831	2 718 265
Council waste and sanitary fees	3 972 248	2 239 157
Water and utilities	4 483 500	21 613 988
Uniforms	339 381	2 158 297
Other expenses	273 479	-
	68 226 938	**84 428 406**

36. New standards and interpretations

36.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	Not material
• GRAP 20: Related parties	01 April 2017	Not material
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	Not material
• GRAP 108: Statutory Receivables	01 April 2016	Not material
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	Not material
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	Not material
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	Not material
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Not material
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	Not material
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	Not material
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Not material