Johannesburg Metropolitan Bus Services SOC Limited
(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements
for the year ended 30 June 2017

General Information

Country of incorporation and domicile	South Africa
Chief Finance Officer (CFO)	Zane T Mheyamwa
Directors	Ms Y. Kani (Chairperson) Ms B. Sibisi Mr D. Mkhwanazi Mr J. Molefe Mr V. Mostert Mr M. Moerane Ms L. Sixolo Mr Z Mkhonta Mr Z. Mayaba 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 - Johannesburg Chartered Accountants (S.A.)
Secretary	Karen Brits
Tax reference number	9294142147
Preparer	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
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
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)
AMD	Acting Managing Director
NED	Non Executive Director

Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of 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 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 Y. Kani (Chairperson) **Mr T. Makola (AMD)**

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 8 number of meetings were held.

Name of member	Number of meetings attended
Mr J Molefe (Chairperson and NED)	1
Ms K Parirenyatwa (Independent)	6
Ms S Mzizi (Independent)	5
Ms M Ramonyai (Independent)	7
Mr D Mkhwanazi (NED)	1
Ms S Yanguya (Ex-Chairperson and NED)	7
Mr Mmope (NED)	7

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 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.

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 theFinance 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;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;

The ARC noted that:

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 ARC recommended that:

Audit Committee Report

The Mandating Committee proceeds to negotiate the future financial and operational model of Metrobus.

The debt resulting from a loan from the shareholder be further negotiated and pursued with the shareholder.

While noting the downward trend in irregular expenditure, Management must take action to prevent irregular expenditure.

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.

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Chairperson of the Audit Committee

Date: ____________________________

Directors' Report

The directors submit their report for the year ended 30 June 2017.

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 deficit of R 19 321 194 (2016: deficit R 32 976 484) 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 2017, the entity had accumulated deficits of R (360 122 548) , (2016: R 341 992 666) and that the entity's total liabilities exceed its assets by R (197 305 670) (2016: R 171 559 683). The entity is in this position as a result of an accumulated under collection of revenue and the financial structure of the organisation. These under collections are a result of the old revenue system in use. The organisation will replace this system in the new financial year. The main ratios of the organisation as at 30 June 2017 were 0.09:1 (2016: 0.34:1) for the current ratio and 0.16:1 (2016: 1.21:1) 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 capital restructuring proposal to the shareholder.

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 R706 million in 2017/2018 and R753 million for the 2018/2019 financial year. The shareholder is in the process of restructuring the entity into a viable and sustainable entity through the turnaround strategy. 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 has started 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) dual fuel buses .
- Finalisation of the new operational plan with revised routes and improved frequencies to improve bus service efficiency.
- Institutional review process including redesigning the organisational structure.
- Inreased supervision and monitoring of activities on the ground. 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, the operational plan and the new organisational structure is currently in progress. However the organisation and rationalisation of its routes to reduce dead mileage and increase operating efficiency is scheduled to commence in the 2017/18 financial year.

Directors' Report

4. SUBSEQUENT EVENTS

There was an amount of R1.7 million paid to the previous Managing Director as a result of contract litigation. This case was awarded in favour of the previous Managing Director after 30 June 2017 and the amount was paid in August 2017.

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:

Name	Status	Changes
Ms Y. Kani (Chairperson)	Non Executive	Appointed 16 March 2017
Ms B. Sibisi	Non Executive	Appointed 16 March 2017
Mr D. Mkhwanazi	Non Executive	Appointed 16 March 2017
Mr J. Molefe	Non Executive	Appointed 16 March 2017
Mr V. Mostert	Non Executive	Appointed 16 March 2017
Mr M. Moerane	Non Executive	Appointed 25 April 2012
Mr Z. Mkhonta	Non Executive	Appointed 15 March 2016
Mr Z. Mayaba	Non Executive	Appointed 15 March 2016
Ms L. Sixolo	Non Executive	Appointed 16 March 2017
Mr Z. Mheyamwa (CFO)	Executive	Appointed 01 October 2015
Retired Directors/ (Resigned)		
Ms N. Mpofu	Non Executive	Retired 16 March 2017
Mr D. Baloyi	Non Executive	Retired 16 March 2017
Ms Rapholo	Non-Executive	Retired 16 March 2017
Ms K. Sangoni	Non Executive	Retired 16 March 2017
Mr M Scott	Non Executive	Retired 16 March 2017
Mr P. Mmope	Non Executive	Retired 16 March 2017
Ms S. Yanguya	Non Executive	Retired 16 March 2017

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 Code 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 as guided by the shareholder;
- 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:
  - 9 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

The remuneration of the Managing Director 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 B. Sibisi (Chairperson), Mr D. Mkhwanazi, Mr Z. Mkhonta, Mr M. Moerane, and Mr Z Mayaba. The Committee met on four seperate occassions during the financial year.

10.5 Social and Ethics Committee

The members of the Social and Ethics Committee are Mr M Moerane (Chairperson), Mr V. Mostert, Ms B. Sibisi and Mr L. Sixolo. The Social and Ethics Committee met four times 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 Z.Mkhonta (Chairperson), Mr L. Sixolo, Mr V. Mostert, Mr J. Molefe and Mr Z. Mayaba. 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 four times in the year under review.

10.7 Mandating Committee

The members of the Mandating Committee are Ms Y. Kani (Chairperson), Mr J. Molefe and Mr Z. Mkhonta. 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 committee met twice in the year under review.

Directors' Report

10.8 Board meetings

The Board met on 12 separate occasions during the 2016/17 financial year. This was necessitated by the extraordinary circumstances which the organisation was going through, which inter alia relate to executive appointments, strike and the approval of the annual report and financial statements.

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	12	8	4	4	5	5	38
Ms Y. Kani (Chairperson)	4					3	7
Ms B. Sibisi	4		1	1		1	7
Mr D. Mkhwanazi	4	1	1			1	7
Mr J. Molefe	4	1			1	2	8
Mr V. Mostert	3			1	1	1	6
Mr M. Moerane	8		4	2		2	16
Ms L. Sixolo	3			1	1	1	6
Mr Z Mkhonta	8		2		4	2	16
Mr Z. Mayaba	9		3		3	1	16
Mr Z Mheyamwa (CFO)***	12	8	4	4	4	1	33
Ms K. Parirenyatwa (IND ARC)**		6				1	7
Ms M. Ramonyai (IND ARC)**		7				1	8
Ms S Mzizi (IND ARC)**		5					5
Ms N Mpofu (Retired)	8					5	13
Mr D Baloyi (Retired)	8			2	4		14
Ms G. Rapholo (Retired)	7		3	3			13
Ms K. Sangoni (Retired)	3		3	3			9
Mr M Scott (Retired)	8		3	3			14
Mr P. Mmope (Retired)	8	7			3	1	19
Ms S. Yanguya (Retired)	4	7			3	2	16

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

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

10.9 Audit and risk committee

The committee met 8 times (including the statutory meetings on approval of financials) during the 2016/17 financial year to review matters necessary to fulfil its role.

Members of the Audit and Risk Committee are Mr. J Molefe (Chairperson), Mr D. Mkhwanazi, Ms K. Parirenyatwa (Independent), Ms S. Mzizi (Independent) and Ms M. Ramonyai (Independent).

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.

Directors' Report

10.10 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. The Auditor General of South Africa was retained as the auditor at the annual general meeting held on 16 March 2017.

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 2017, 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 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	2	19 141 692	12 556 497
Receivables from exchange transactions	4	5 141 196	196 370 992
Prepayments	6	5 732 489	4 749 437
Insurance fund	10	6 642 654	3 436 644
Cash and cash equivalents	7	339 457	177 279
		36 997 488	**217 290 849**
Non-Current Assets			
Property, plant and equipment	8	665 139 288	558 052 502
Intangible assets	9	3 893 479	4 788 372
Loans to shareholders	3	29 335 717	28 926 970
		698 368 484	**591 767 844**
Total Assets		**735 365 972**	**809 058 693**
Liabilities			
Current Liabilities			
Loans from shareholders	3	451 549 174	424 152 840
Other financial liabilities	11	28 840 951	29 912 945
Finance lease obligation	12	790 423	1 343 728
Payables from exchange transactions	13	134 181 933	175 106 793
VAT payable	33	9 012	-
Deferred income	14	4 417 715	3 951 536
Provisions	15	2 801 468	4 541 938
Bank overdraft	7	7 994	-
		622 598 670	**639 009 780**
Non-Current Liabilities			
Other financial liabilities	11	295 584 362	324 337 790
Finance lease obligation	12	-	735 342
Employee benefit obligation	5	14 488 607	16 535 470
		310 072 969	**341 608 602**
Total Liabilities		**932 671 639**	**980 618 382**
Net Assets		**(197 305 667)**	**(171 559 689)**
Share capital	16	54 774 330	54 774 330
Reserves			
Revaluation reserve	17	108 042 548	115 658 653
Accumulated defecit		(360 122 548)	(341 992 668)
Total Net Assets		**(197 305 670)**	**(171 559 685)**

Statement of Financial Performance for the period ended 30 June 2017

Amounts in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Rendering of services		101 060 786	105 878 682
Actuarial gain		1 687 045	2 408 921
Other income		7 082 655	3 183 316
Interest received - investment	20	2 115 397	1 881 439
Total revenue from exchange transactions		**111 945 883**	**113 352 358**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		506 354 008	432 693 000
Capital Expenditure Grant		5 388 244	-
Provincial Department of Transport Grant		10 000 000	-
Total revenue from non-exchange transactions		**521 742 252**	**432 693 000**
Total revenue		**633 688 135**	**546 045 358**
Expenditure			
Employee related costs	19	(299 389 595)	(282 554 327)
Depreciation and amortisation		(64 924 351)	(51 374 327)
Impairment of assets and inventory		(3 448 673)	(1 460 263)
Finance costs	21	(68 887 800)	(36 567 139)
Lease rentals on operating lease		(13 550 685)	(17 019 577)
Debt Impairment		(943 401)	(225 780)
Repairs and maintenance	36	(48 609 286)	(52 682 456)
Fuel (Buses)		(72 604 688)	(60 611 722)
Insurance		(5 364 255)	(5 327 724)
General Expenses	34	(73 037 927)	(67 681 442)
Total expenditure		**(650 760 661)**	**(575 504 757)**
Operating deficit	18	**(17 072 526)**	**(29 459 399)**
Loss on disposal of assets		(2 248 668)	(3 517 085)
Deficit for the year		**(19 321 194)**	**(32 976 484)**

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	121 495 118	(310 420 991)	(134 151 543)
Balance at 01 July 2015 as restated		**13 726 387**	**41 047 943**	**54 774 330**	**121 495 118**	**(310 420 991)**	**(134 151 543)**
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	-
Revaluations/ (Devaluation) for the year		-	-	-	(4 431 658)	-	(4 431 658)
Total changes		-	-	-	(5 836 465)	(31 571 677)	(37 408 142)
Balance at 01 July 2016		**13 726 387**	**41 047 943**	**54 774 330**	**115 658 653**	**(341 992 668)**	**(171 559 685)**
Changes in net assets							
Deficit for the year		-	-	-	-	(19 321 194)	(19 321 194)
Realisation of revaluation reserve to retained earnings		-	-	-	(1 191 314)	1 191 314	-
Revaluation/ (Devaluation) for the year		-	-	-	(6 424 791)	-	(6 424 791)
Total changes		-	-	-	(7 616 105)	(18 129 880)	(25 745 985)
Balance at 30 June 2017		**13 726 387**	**41 047 943**	**54 774 330**	**108 042 548**	**(360 122 548)**	**(197 305 670)**

Cash Flow Statement for the year ended 30 June 2017

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Grants		506 354 008	431 974 000
Other grants		15 388 244	-
Receipts from rendering of passenger services		95 672 543	106 432 017
		617 414 795	538 406 017
Payments			
Employee costs		(244 992 199)	(285 933 033)
Suppliers		(51 909 646)	(294 151 032)
Finance costs		(68 887 800)	(34 685 700)
Other payments		(60 364 246)	(47 702 396)
		(426 153 891)	(662 472 161)
Net cash flows from operating activities	22	**191 260 904**	**(124 066 144)**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(184 086 746)	(346 745 208)
Proceeds from sale of property, plant and equipment	8	451 936	-
Purchase of other intangible assets	9	(139 419)	(2 227 331)
Movement in insurance fund		(3 206 010)	(1 988 865)
Net cash flows from investing activities		**(186 980 239)**	**(350 961 404)**
Cash flows from financing activities			
Receipt /(Repayment) of other financial liabilities		(29 825 422)	329 660 861
Financing from shareholders loan		26 987 587	146 313 566
Finance lease payments		(1 288 647)	(1 047 596)
Net cash flows from financing activities		**(4 126 482)**	**474 926 831**
Net increase/(decrease) in cash and cash equivalents		**154 183**	**(100 719)**
Cash and cash equivalents at the beginning of the year		177 279	277 998
Cash and cash equivalents at the end of the year	7	**331 462**	**177 279**

Johannesburg Metropolitan Bus Services SOC Limited

(Registration number 2000/004704/07)
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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	166 061 000	2 001 000	**168 062 000**	101 060 786	**(67 001 214)**	1
Acturial gain	-	-	**-**	1 687 045	**1 687 045**	1A
Other income	-	-	**-**	7 082 655	**7 082 655**	1B
Interest received (paid) - investment	-	-	**-**	2 115 397	**2 115 397**	
Total revenue from exchange transactions	**166 061 000**	**2 001 000**	**168 062 000**	**111 945 883**	**(56 116 117)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	474 346 000	32 008 000	**506 354 000**	506 354 008	**8**	
Capital Expenditure Grant	-	-	**-**	5 388 244	**5 388 244**	1C
Provincial Department of Transport Grant	-	-	**-**	10 000 000	**10 000 000**	1D
Total revenue from non-exchange transactions	**474 346 000**	**32 008 000**	**506 354 000**	**521 742 252**	**15 388 252**	
Total revenue	**640 407 000**	**34 009 000**	**674 416 000**	**633 688 135**	**(40 727 865)**	
Expenditure						
Employee Related costs	(300 923 000)	(200 000)	**(301 123 000)**	(299 389 595)	**1 733 405**	2
Depreciation and amortisation	(76 064 000)	2 553 000	**(73 511 000)**	(64 924 351)	**8 586 649**	3
Impairment losses	-	-	**-**	(3 448 673)	**(3 448 673)**	4
Finance costs	(33 572 000)	(35 727 000)	**(69 299 000)**	(68 887 800)	**411 200**	5
Contracted services	(26 369 000)	-	**(26 369 000)**	(13 550 685)	**12 818 315**	7
Allowance for impairment of current receivables	-	-	**-**	(943 401)	**(943 401)**	
Repairs and maintenance	(61 186 000)	(635 000)	**(61 821 000)**	(48 609 286)	**13 211 714**	6
Diesel	(80 259 952)	-	**(80 259 952)**	(72 604 688)	**7 655 264**	8
Insurance	(5 354 860)	-	**(5 354 860)**	(5 364 255)	**(9 395)**	
General Expenses	(56 678 188)	-	**(56 678 188)**	(73 037 927)	**(16 359 739)**	9
Total expenditure	**(640 407 000)**	**(34 009 000)**	**(674 416 000)**	**(650 760 661)**	**23 655 339**	
Operating deficit	**-**	**-**	**-**	**(17 072 526)**	**(17 072 526)**	
Loss on disposal of assets	-	-	**-**	(2 248 668)	**(2 248 668)**	
Deficit before taxation	**-**	**-**	**-**	**(19 321 194)**	**(19 321 194)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**-**	**-**	**(19 321 194)**	**(19 321 194)**	

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 30 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.

1A. Acturial gain - This relates to employee post retirement benefit fund and this fund is revalued on an annual basis.

1B. Other income - This relates to charges levied to the supplier for late delivery of aquired buses and training refunds from TETA.

1C. Capital expenditure grant - Relates to an amount received from Provincial Department of Transport for utilisation in the business.

1D. Provincial Capital expenditure grant - Relates to amount received from Provincial Department of Transport as a once-off grant and was not anticipated at the time of budget.

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

3. Depreciation: Savings were realised on depreciation due to delay in delivery of the balance of the new buses and review of useful lives of buses. The budget had assumed that all the buses were to be delivered before the beginning of the financial year.

4. Impairment loss: This relates to review of assets as at the end of the financial year as it is incidental, it is not budgeted for.

5. **Finance Costs**: Finance costs were within budget due to underspending on capex and opex. The high finance costs are due to the high debt from the capital assets loans.

6. Repairs and Maintenance: Savings in Repairs and Maintenance were due to less repairs and maintenance of the old fleet due to expired tenders, management is in the process of appointing new suppliers.

7. 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 cooperatives for cleaning resulted in significantly lower cost than previous cleaning tenders.

8. Diesel expenses: The savings were as a result of lower distance travelled than anticipated during the budgeting time.

9. General expenses: This increased due to the cost of licensing of new buses, inceased purchase of CNG natural gas, increase reliance on inspection consultants, increased security charges and increased water and utilities 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 Municipal Finance Management Act (Act 56 of 2003).

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.

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 at disposal /scrapping 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.

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.

Accounting Policies

1.4 Intangible assets (continued)

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

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

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.

Accounting Policies

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 performance bonuses.

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 is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

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 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 2016/07/01 to 2017/06/30.

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	2017	2016

2. Inventories

Consumable stores	433 462	241 993
Spare parts	28 203 578	19 696 290
Tag stock	960 429	1 016 601
Fuel (Diesel, Petrol)	-	1 229 934
Less: Provision for obsolescence	(10 455 777)	(9 628 321)
	19 141 692	**12 556 497**

2.1 Inventories recognised as an expense during the year

Diesel	67 400 304	60 066 226
Spare parts	47 877 310	40 138 368
	115 277 614	**100 204 594**

Provision for obsolescence stock is made up of:

1) Spare parts that are obsolete R1.5 million; (2016 : R1.3 million).
2) Slow moving stock of R9.0 million; (2016 : R 8.3 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 theft across all the depots.

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.	29 335 717	28 926 970
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.	(451 549 174)	(424 152 840)
	(422 213 457)	**(395 225 870)**

Non-current assets	29 335 717	28 926 970
Current liabilities	(451 549 174)	(424 152 840)
	(422 213 457)	**(395 225 870)**

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	29 335 717	28 926 970

Sweeping account

Loans at beginning of the year	(424 152 840)	(278 397 598)
Receipts	763 850 339	687 257 345
Payments	(791 246 673)	(833 012 587)
	(451 549 174)	**(424 152 840)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

4. Receivables from exchange transactions

	2017	2016
Trade debtors	4 571 288	3 821 432
Staff debtors	296 434	3 708 185
Deposits	11 264	11 264
Provision for impairment	(1 254 843)	(311 442)
Sundry debtors	1 501 994	2 718 690
Insurance debtor	-	(90)
Other debtors	15 059	-
Other intercompany debtors	-	186 422 953
	5 141 196	**196 370 992**

Trade debtors

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2017 R 3 151 567 (2016:R 1 634 236) were past due but not impaired.

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

	2017	2016
1 month past due	2 081 087	734 598
2 months past due	486 331	355 709
3 months past due	584 150	543 929

Trade and other receivables impaired

As of 30 June 2017, trade and other receivables of R 1 254 843 (2016: R 311 442) were impaired and provided for.

The ageing of these amounts are as follows:

	2017	2016
1 to 6 months	3 161 691	3 220 940
Over 6 months	1 409 597	600 492

Reconciliation of provision for impairment of trade and other receivables

	2017	2016
Opening balance	311 442	13 220 289
Provision for impairment	943 401	225 780
Amounts written off as uncollectible	-	(13 134 627)
	1 254 843	**311 442**

	Government Entities	Business	Other debtors	Total
1 - 30 days	814 046	1 256 791	10 250	2 081 087
31-60 days	-	486 331	-	486 331
61-90 days	69 540	514 609	-	584 149
91-180 days	-	10 124	-	10 124
181-360 days	-	317 154	-	317 154
+361 days	485 204	587 342	19 897	1 092 443
	1 368 790	**3 172 351**	**30 147**	**4 571 288**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Employee benefit obligations

5.1 Defined benefit plan

Post-retirement liability

	2017	2016
Post-Retirement Medical Aid Plan	(3 408 138)	(4 492 554)
Post-Retirement Housing Subsidy Plan	(196 459)	(182 962)
Retirement Gratuity Plan	(10 884 009)	(11 859 954)
	(14 488 606)	**(16 535 470)**

5.1.1 Post retirement medical aid plan

Movements for the 12 months

	2017	2016
Opening balance	4 492 554	6 655 592
Net expense recognised in the statement of financial performance	(1 084 416)	(2 163 038)
	3 408 138	**4 492 554**

Net expense recognised in the statement of financial performance

	2017	2016
Current service cost	-	61 495
Interest cost	374 100	540 828
Actuarial gains	(1 205 446)	(2 517 099)
Benefits paid	(253 070)	(248 262)
	(1 084 416)	**(2 163 038)**

Notional loan account

	2017	2016
Opening balance	24 900 026	23 597 867
Interest received	1 840 974	1 550 421
Benefits payments	(253 070)	(248 262)
Balance at end of year	**26 487 930**	**24 900 026**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Employee benefit obligations (continued)

Key assumptions used

The principal actuarial assumptions used were as follows on 30 June 2017.

Discount rates used	8,22 %	8,55 %
Expected rate of return on assets	8,22 %	8,55 %
Expected increase in salaries	8,22 %	8,55 %

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	182 962	30 513
Net expense recognised in the statement of financial performance	13 498	152 449
	196 460	**182 962**

Net expense recognised in the statement of financial performance

Current service cost	5 202	961
Interest cost	15 645	2 507
Actuarial gains/(loss)	(7 349)	148 981
	13 498	**152 449**

Key assumptions used

Assumptions used on last valuation on 30 June 2017.

Discount rates used	8,22 %	8,55 %
Expected rate of return on assets	8,22 %	8,55 %
Expected increase in salaries	8,22 %	8,55 %

5.1.3 Post retirement gratuity plan

Amounts recognised in the Statement of financial position

Movements for the 12 months

Opening balance	11 859 954	13 120 003
Benefits paid	(1 453 580)	(2 191 500)
Net expense recognised in the statement of financial performance	477 635	931 451
	10 884 009	**11 859 954**

Net expense recognised in the statement of financial performance

Interest cost	951 885	972 254
Actuarial losses	(474 250)	(40 803)
	477 635	**931 451**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Employee benefit obligations (continued)

Notional loan account

Opening balance	4 026 953	5 887 436
Interest received	274 423	331 017
Benefits payments	(1 453 580)	(2 191 500)
Balance at end of year	**2 847 796**	**4 026 953**

Key assumptions used

Assumptions used on last valuation on 30 June 2017.

Discount rates used	8,22 %	8,55 %
Expected rate of return on assets	8,22 %	8,55 %
Expected increase in salaries	8,22 %	8,55 %

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(14 488 607)	(16 535 470)

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

Opening balance	16 535 470	19 806 108
Benefits paid	(1 706 651)	(2 439 762)
Net expense recognised in the statement of financial performance	(340 213)	(830 876)
Closing balance	**14 488 606**	**16 535 470**

Net expense recognised in the statement of financial performance

Current service cost	-	62 456
Interest cost	1 341 630	1 515 589
Actuarial (gains) / losses	(1 687 045)	(2 408 921)
Past service cost post retirement	5 202	-
Total included in employee related costs	**(340 213)**	**(830 876)**

6. Prepayments

Prepayments consists of:		
Vehicles and bus licences	5 613 685	4 722 339
Software licences and others	118 805	27 098
	5 732 490	**4 749 437**

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	60 200	44 467
Bank balances	279 257	132 812
Bank overdraft	(7 994)	-
	331 463	**177 279**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

7. Cash and cash equivalents (continued)

Current assets	339 457	177 279
Current liabilities	(7 994)	-
	331 463	**177 279**

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Current Main Account - 405 439 4833	-	-	-	-	1 065	1 065
SBSA Main Account - 197157	44 232	-	-	(78 744)	(80 544)	(104 064)
SBSA Salaries Account - 197203	-	-	1	-	-	-
SBSA Charges Account - 197130	(7 994)	-	-	(7 994)	-	-
Total	**36 238**	**-**	**1**	**(86 738)**	**(79 479)**	**(102 999)**

Notes to the Annual Financial Statements

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8. Property, plant and equipment

	2017			2016		
	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	60 684 967	(24 242 420)	36 442 547	56 814 185	(17 939 443)	38 874 742
Leasehold property	1 147 181	(599 765)	547 416	1 147 181	(555 223)	591 958
Plant and machinery	18 582 612	(5 634 492)	12 948 120	12 416 104	(4 453 960)	7 962 144
Furniture and fixtures	985 008	(436 721)	548 287	527 047	(363 084)	163 963
Motor vehicles	6 322 312	(5 515 770)	806 542	6 817 574	(4 819 335)	1 998 239
Office equipment	749 477	(647 160)	102 317	749 477	(602 447)	147 030
IT equipment	10 551 926	(5 823 783)	4 728 143	6 833 275	(5 293 366)	1 539 909
Other property, plant and equipment	24	(24)	-	24	(24)	-
Fixed Assets Clearing	131 984	-	131 984	131 984	-	131 984
Fare collection equipment	7 502 284	(7 290 582)	211 702	7 502 284	(7 183 773)	318 511
Specialised vehicles	702 376 682	(126 733 371)	575 643 311	574 898 449	(101 465 465)	473 432 984
Tools and loose gear	1 500 043	(1 231 124)	268 919	1 328 633	(1 197 595)	131 038
Total	**843 294 500**	**(178 155 212)**	**665 139 288**	**701 926 217**	**(143 873 715)**	**558 052 502**

Reconciliation of property, plant and equipment - 2017

Notes to the Annual Financial Statements

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8. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	32 760 000	-	-	-	-	32 760 000
Buildings	38 874 742	3 870 782	-	(6 302 977)	-	36 442 547
Leasehold property	591 958	-	-	(44 542)	-	547 416
Plant and machinery	7 962 144	6 571 986	(352 505)	(1 233 505)	-	12 948 120
Furniture and fixtures	163 963	720 229	(261 525)	(74 380)	-	548 287
Motor vehicles	1 998 239	-	(352 001)	(839 696)	-	806 542
Office equipment	147 030	-	-	(44 713)	-	102 317
IT equipment	1 539 909	3 836 852	(97 449)	(551 169)	-	4 728 143
Fixed clearing account	131 984	-	-	-	-	131 984
Fare collection equipment	318 511	-	-	(106 809)	-	211 702
Specialised vehicles	473 432 984	168 782 302	(1 924 600)	(54 773 911)	(9 873 464)	575 643 311
Tools and loose gear	131 038	227 327	(46 522)	(42 924)	-	268 919
	558 052 502	**184 009 478**	**(3 034 602)**	**(64 014 626)**	**(9 873 464)**	**665 139 288**

It should be noted that total assets for 2017 includes non-current assets held for sale amounting to R481 717.00.

Notes to the Annual Financial Statements

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	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
Fixed assets clearing account	106 996	24 988	-	-	-	-	131 984
Fare collection equipment	507 039	-	(940)	-	(187 588)	-	318 511
Specialised vehicles	181 101 890	343 885 142	(2 448 488)	(5 000 000)	(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	2017	2016

8. Property, plant and equipment (continued)

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

Cumulative expenditure recognised in the carrying value of property plant and equipment		
Buildings	3 870 782	-
Plant and machinery	6 441 986	-
IT equipment	3 248 200	-

Reconciliation of Work-in-Progress 2017

	Included within Other PPE	Total
Additions/capital expenditure	13 560 967	13 560 967

Reconciliation of Work-in-Progress 2016

	Included within Other PPE	Total
Opening balance	34 013 500	34 013 500
Transferred to completed items	(34 013 500)	(34 013 500)
	-	-

9. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	4 803 344	(909 865)	3 893 479	11 889 265	(7 100 893)	4 788 372

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Write-offs	Total
Computer software	4 788 372	139 419	(909 865)	(124 447)	3 893 479

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	3 223 855	2 227 331	(662 814)	4 788 372

10. Insurance fund

Movement for the year		
Opening balance	3 436 644	1 447 779
Contributions to the fund	3 206 010	3 000 000
Claims against the fund	-	(1 011 135)
	6 642 654	**3 436 644**

Notes to the Annual Financial Statements

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10. Insurance fund (continued)

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.

11. Other financial liabilities

	2017	2016
At amortised cost		
Structured loans 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.	28 840 951	29 912 945
Non Annuity Loans 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.	295 584 362	324 337 790
	324 425 313	**354 250 735**
Total other financial liabilities	**324 425 313**	**354 250 735**
Non-current liabilities		
At amortised cost	295 584 362	324 337 790
Current liabilities		
At amortised cost	28 840 951	29 912 945

12. Finance lease obligation

	2017	2016
Minimum lease payments due		
- within one year	883 426	1 783 947
- in second to fifth year inclusive	-	798 177
	883 426	2 582 124
less: future finance charges	(93 303)	(503 054)
Present value of minimum lease payments	**790 123**	**2 079 070**
Present value of minimum lease payments due		
- within one year	790 423	1 343 728
- in second to fifth year inclusive	-	735 342
	790 423	**2 079 070**
Non-current liabilities	-	735 342
Current liabilities	790 423	1 343 728
	790 423	**2 079 070**

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% (2016: 17%).

All leases have fixed repayments.

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

13. Payables from exchange transactions

	2017	2016
Trade payables and Accruals	85 376 186	152 159 234
Accrued leave pay	14 630 643	8 799 647
Accrued bonus	8 462 769	8 405 942
Other accrued expenses	3 126 931	66 984
Sundry creditors	22 585 404	5 674 986
	134 181 933	**175 106 793**

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

	2017	2016
Balance at the beginning of the year	3 951 536	4 264 490
Increase (decrease) during the year	466 179	(312 954)
	4 417 715	**3 951 536**

15. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Provision for performance bonuses	4 541 938	2 801 467	(4 541 937)	2 801 468

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for performance bonuses	2 412 762	2 129 176	4 541 938

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

16. Share capital

	2017	2016
Authorised		
1 000 Ordinary shares of R1 each	1 000	1 000

	2017	2016
Reconciliation of number of shares issued:		
Reported as at 01 July 2016	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.

	2017	2016
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**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

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	115 658 653	121 495 118
Change during the year	(7 616 105)	(5 836 465)
	108 042 548	**115 658 653**

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	585 690	734 206
Equipment		
• Contractual amounts	12 964 995	16 285 371
	13 550 685	**17 019 577**

Loss on sale of property, plant and equipment	(2 248 668)	(3 517 085)
Impairment on property, plant and equipment	3 448 673	1 460 263
Amortisation on intangible assets	909 864	628 971
Depreciation on property, plant and equipment	64 014 487	50 745 356
Employee costs	299 389 595	282 554 327

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Employee related costs

Employee related costs : Salaries and wages	196 408 721	192 750 374
Employee related costs : Staff costs	207 559	119 327
Housing benefits and allowances	2 035 417	2 043 133
Overtime payments	25 959 750	21 317 415
Bonus	13 032 707	15 143 547
Travel, motor car, accommodation, subsistence and other allowances	2 940 201	4 214 742
Other payroll levies	12 425 668	12 598 998
Leave pay provision charge	13 966 535	2 914 559
Defined contribution plans	30 584 019	30 361 554
Board members fees and retainers	1 829 018	1 090 678
	299 389 595	**282 554 327**

Remuneration of Ex-Managing Director

Annual Remuneration	1 078 323	1 737 450
Contributions to UIF, Medical and Pension Funds	7 514	19 279
Termination benefits	1 699 222	12 000
Other	215 696	-
	3 000 755	**1 768 729**

His contract expired on 31 January 2017.

Chief Financial Officer

Annual Remuneration	1 402 200	955 142
Performance Bonuses	95 819	-
Contributions to UIF, Medical and Pension Funds	11 617	10 987
Other	13 299	8 692
	1 522 935	**974 821**

Appointed in October 2015.

Acting Chief Financial Officer (Deputy Chief Financial Officer)

Annual Remuneration	-	167 776
Contributions to UIF, Medical and Pension Funds	-	33 435
Other	-	48 000
	-	**249 211**

Acted until October 2015.

Ex-General Manager (Human Resources)

Annual Remuneration	157 793	965 079
Car Allowance	-	117 600
Contributions to UIF, Medical and Pension Funds	92 138	64 687
Other	6 309	12 000
	256 240	**1 159 366**

Resigned on 31 July 2017.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Employee related costs (continued)

Chief Audit Executive

	2017	2016
Annual Remuneration	1 091 772	981 672
Car Allowance	80 000	120 000
Performance Bonuses	96 242	-
Contributions to UIF, Medical and Pension Funds	9 919	12 681
Other	12 447	12 000
	1 290 380	**1 126 353**

Former Company Secretary

	2017	2016
Annual Remuneration	-	490 898
Car Allowance	-	56 000
Contributions to UIF, Medical and Pension Funds	-	9 627
Other	-	5 000
	-	**561 525**

In the position until December 2015.

Chief Information Officer

	2017	2016
Annual Remuneration	882 910	1 108 440
Car Allowance	50 000	60 000
Performance Bonuses	114 900	-
Contributions to UIF, Medical and Pension Funds	7 607	13 196
Other	119 981	12 000
	1 175 398	**1 193 636**

Company Secretary

	2017	2016
Annual Remuneration	1 252 206	654 035
Performance Bonuses	67 032	-
Contributions to UIF, Medical and Pension Funds	40 295	6 877
Other	34 419	41 499
	1 393 952	**702 411**

Appointed in December 2015.

Former General Manager: Operations

	2017	2016
Annual Remuneration	-	481 297
Car Allowance	-	20 864
Contributions to UIF, Medical and Pension Funds	-	127 610
Other	-	6 000
	-	**635 771**

Contract expired in December 2015.

General Manager: Technical

	2017	2016
Annual Remuneration	1 223 042	1 140 538
Performance Bonuses	95 572	-
Contributions to UIF, Medical and Pension Funds	26 459	50 137
Other	25 518	12 000
	1 370 591	**1 202 675**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Employee related costs (continued)

General Manager: Operations

Annual Remuneration	1 055 549	293 680
Car Allowance	128 000	64 000
Performance Bonuses	46 472	-
Contributions to UIF, Medical and Pension Funds	131 358	46 415
Other	54 187	4 000
	1 415 566	**408 095**

Appointed in January 2016.

20. Investment revenue

Interest revenue

Interest earned from investments	2 115 397	1 881 439

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

21. Finance costs

Non-current borrowings	68 887 800	36 567 139

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

22. Cash generated from / (used in) operations

Deficit	(19 321 194)	(32 976 484)
Adjustments for:		
Depreciation and amortisation	64 924 351	51 374 327
Loss on disposal of assets	2 248 668	3 517 085
Impairment deficit	3 448 673	1 460 263
Debt impairment	943 401	225 780
Movements in retirement benefit assets and liabilities	(2 046 863)	(3 270 638)
Movements in provisions	(1 740 470)	2 136 147
Minor assets	535 859	-
Changes in working capital:		
Inventories	(6 585 195)	(232 780)
Receivables from exchange transactions	191 229 796	(190 393 002)
Debt impairment	(943 401)	(225 780)
Prepayments	(983 052)	(657 039)
Payables from exchange transactions	(40 924 860)	45 288 931
VAT	9 012	-
Deferred income	466 179	(312 954)
	191 260 904	**(124 066 144)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Commitments

Commitments in respect of capital expenditure:

Authorised and contracted		
• Property, plant and equipment	-	160 694 722
• Diesel	-	12 604 126
• Repairs and maintenance and others	-	5 723 199
• Other	-	9 194 717
• Repairs to buildings	3 870 782	-
• Installation of diesel tanks	336 830	-
• High pressure bus washing machine	90 117	-
• Furniture	67 950	-
	4 365 679	**188 216 764**

Total capital commitments		
Already contracted for but not provided for	4 365 679	188 216 764

Operating leases - as lessee

Minimum lease payments due		
- within one year	620 272	8 510 664
- in second to fifth year inclusive	797 765	-
	1 418 037	**8 510 664**

Operating leases – as lessee (Buildings)

Minimum lease payments due		
Premises - Contractual amounts	1 418 037	91 872
Buses - Contractual amounts	-	8 418 792
	1 418 037	**8 510 664**

Buses under lease from Mercedes Benz were subsequently returned after year end.

24. Contingencies

Economic entity

Employees Claims

1. **Alleged unfair dismissal**: 4 alleged unfair dismissal cases against Metrobus currently under consideration by the CCMA. Management is confident that awards in this regard will be in favor of Metrobus. However should awards be against Metrobus, the entity may be liable for back pay in the region of R100 000 in total.

2. **Claim for defamation**: A matter related to an ex-employee filing a defamation claim against three current employees of Metrobus who testified in the disciplinary case which resulted in the ex-employee's dismissal are underway. The claim totals R321 116 against the employees. Management is confident that a judgment will be made in favor of Metrobus and the current employees.

3. **Unfair discrimination:** One case of unfair labour practice is under consideration by the labour court. Management and external lawyers are confident that an award will be made in favour of Metrobus in this regard. However should such award be made in favor of the employee Metrobus will be liable for payment in the region of R814 000.

4. An employee who was dismissed filed a complaint, there is possibility that an amount R22 000 will be payable.

Supplier claims

Potential procurement claims: A potential claim for R3m for the rendering of services. Management is of the view that the appointment was irregular and unlawful and that there is no valid claim for payment.

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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 and Zoo (NPC) 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
	Johannesburg Social Housing Company (SOC) Ltd

Related party balances

	2017	2016
Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	30 213 407	216 895 589
Johannesburg Development Agency (Pty) Ltd	-	6 320
Johannesburg Roads Agency (Pty) Ltd	6 820	-
	30 220 227	**216 901 909**
Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	67 670 699	-
Johannesburg Social Housing Company (Pty) Ltd	38 708	-
City of Johannesburg Property Company (Pty) Ltd	3 870 782	-
Johannesburg Water (Pty) Ltd	-	21 221 171
Metropolitan Trading Company (Pty) Ltd	60 862	-
	71 641 051	**21 221 171**
Loans from shareholders		
City of Johannesburg Metropolitan Municipality	775 090 064	799 624 742

Related party transactions

	2017	2016
Grants and subsidy from related parties		
City of Johannesburg Metropolitan Municipality (Subsidy)	506 354 008	432 693 000
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	6 466 701	40 691 351
Pikitup Johannesburg (Soc) Ltd	189 583	138 039
City Power Johannesburg (Soc) Ltd	4 041 491	2 900 272
City of Johannesburg Property Company (Soc) Ltd	351 889	-
Johannesburg Water (Pty) Ltd	9 793 932	7 690 587
Metropolitan Trading Company (Pty) Ltd	60 862	-
Johannesburg Civic Theatre (Pty) Ltd	-	24 480
	20 904 458	**51 444 729**
Other receipts from related parties		
City of Johannesburg Metropolitan Municipality	2 697 849	4 661 280
Johannesburg City Parks (Pty) Ltd	-	5 820
City of Johannesburg Property Company (Soc) Ltd	7 000	-
Johannesburg Development Agency (Pty) Ltd	6 320	16 220
Johannesburg Civic Theatre (Pty) Ltd	5 750	-

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Figures in Rand	2017	2016
25. Related parties (continued)		
Johannesburg Roads Agency (Pty) Ltd	6 820	-
Johannesburg Water (Pty) Ltd	13 070	5 250
	2 736 809	**4 688 570**
Interest paid to related party		
City of Johannesburg Metropolitan Municipality	68 361 496	35 849 269

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26. Directors' emoluments

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

Non-executive

2017

	Directors' fees	Total
Y Kani (Chairperson)*	96 000	96 000
D Baloyi	95 836	95 836
M Scott	98 120	98 120
Mr M. Moerane	76 315	76 315
Ms L. Sixolo	42 084	42 084
B Sibisi	75 209	75 209
V Mostert	72 168	72 168
P Mmope	122 074	122 074
D Mkhwanazi	73 149	73 149
J Molefe	70 084	70 084
Z Mayaba	121 228	121 228
Z Mkhonta	103 697	103 697
G Rapholo	108 974	108 974
N Mpofu (Ex-Chairperson)	216 775	216 775
K Parirenyatwa	55 138	55 138
K Khawe	108 382	108 382
M Ramonyai	60 842	60 842
S Mzizi	64 645	64 645
Ms S. Yanguya	168 298	168 298
	1 829 018	**1 829 018**

*The Ex-Chairperson for the financial year 2016/17 retired on 16 March 2017 and the current Chairperson was appointed on 16 March 2017.

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 Rampnyai	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**

Notes to the Annual Financial Statements

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27. Change in estimate

Property, plant and equipment

The useful life of Property, Plant and Equipment was re-assessed and this resulted in an increase in the useful life of those assets that are going to reach the end of its useful life in the near future but will still be in use. These assets are still in a good working condition based on the asset verification performed at year end. The useful life and residual value adjustment resulted in a decrease in depreciation in the current year amounting to R4 944 019.67.

28. Prior period errors

Management discovered a number of errors that were made in the previous periods for which comparative figures have been restated accordingly.

Management identified an error in classification between provisions and accruals. The correction of the error resulted in an increase in the accruals expense by R8,405,942 and a decrease of 8,405,942 in the provision for performance bonus.

Statement of financial position		
Decrease in provision for bonus due to reallocation of 13th cheque bonus provision	-	(8 405 942)
	-	-
Increase in accruals as a result of reallocation of 13th cheque bonus	-	8 405 942
	-	-
Statement of financial performance		
	-	-

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

29. Risk management (continued)

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.

Notes to the Annual Financial Statements

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	2017	2016
Loans to shareholder	29 335 717	28 926 970
Trade and other receivables	4 571 293	16 956 063

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. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	454 707	181 228
Fruitless and wasteful expenditure current year	316 877	273 479
	771 584	**454 707**

The fruitless and wasteful expenditure relates to fines which were levied on the organisation for late renewal of bus licences as well as buses which were out of commision as licences had to be paid. Investigations are being carried and the necessary consequence management will be done.

32. Irregular & Deviation expenditure

Reconciliation of irregular & Deviation expenditure		
Opening balance	224 438 937	192 800 354
Irregular expenditure current year	6 363 137	31 638 583
	230 802 074	**224 438 937**

32. Irregular & Deviation expenditure (continued)

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.	1 278 668	26 865 480
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.	5 084 469	4 773 103
	6 363 137	**31 638 583**

Deviation

Details of deviation

Deviation	12 285 443	11 813 885

Investigations on irregular expenditure are being carried and the necessary consequence management will be done. The deviation register is complete to the extent of documentation brought and does not include items without the relevant cost.

2017

33. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	3 024 578	2 939 310

PAYE and UIF

Opening balance	45 050	-
Current year deductions	37 814 628	23 184 278
Amount paid - current year	(37 814 628)	(23 139 228)
Amount paid - previous years	(45 050)	-
	-	**45 050**

Pension and Medical Aid Deductions

Opening balance	34 516	-
Current year contributions	29 237 187	28 783 507
Amount paid - current year	(29 237 187)	(28 748 991)
Amount paid - previous years	(34 516)	-
	-	**34 516**

VAT

VAT payable	9 012	-

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

Notes to the Annual Financial Statements

Figures in Rand

34. General Expenses

Advertising	3 604 190	2 953 794
Assessment rates & municipal charges	5 707	-
Auditors Remuneration	3 024 578	2 666 367
Bank charges	478 958	404 970
Cleaning	2 774 638	2 877 563
Commission paid	1 740 317	3 721 623
Computer expenses	7 437 030	6 619 481
Consulting and professional fees	9 774 777	8 256 852
Donations	65 190	184 750
Entertainment	456 325	577 962
Conferences and seminars	64 500	62 035
Motor vehicle expenses	12 761 875	10 769 991
Recruitment fees	436 548	996 847
Postage and courier	-	924
Printing and stationery	641 234	477 534
Royalties and license fees	388 246	125 815
Security (Guarding of municipal property)	8 187 834	7 984 586
Subscriptions and membership fees	55 808	171 426
Telephone and fax	2 173 492	2 523 805
Training	1 291 460	4 269 333
Travel - local	43	1 345
COID	2 572 892	-
Electricity	3 943 443	2 965 831
Council waste and sanitary fees	4 728 530	3 972 248
Water and utilities	5 883 638	4 483 500
Uniforms	2 124	339 381
Other expenses	544 550	273 479
	73 037 927	**67 681 442**

Notes to the Annual Financial Statements

35. New standards and interpretations

35.1 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 2017 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 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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

36. Repairs and maintenance

Repairs and maintenance		
Repairs and maintenance - Buses	46 421 698	51 500 627
Repairs and maintenance - Premises	1 484 015	625 107
Repairs and maintenance - Others	703 573	556 721
	48 609 286	**52 682 455**