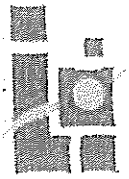

Johannesburg Metropolitan Bus Services SOC Limited
(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements
for the year ended 30 June 2011

Auditor General - Johannesburg

Johannesburg Metropolitan Bus Services SOC Limited

(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements for the year ended 30 June 2011

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Providing a public bus service to the commuters of The City of Johannesburg and also the hiring out of its buses to individuals and organisations
THE FOLLOWING IS INCLUDED IN THE SCOPE OF OPERATION	Number of Depots: 3 Size of Vehicle fleet: 30 (2010: 30) Size of bus fleet: 497 (2010: 499) Number of employees: 898 (2010: 898)
DIRECTORS	Vincent Zwelibanzi Mntambo (Chairman) Suzan Badanile Nyalunga Maureen Manyama-Matome Herman Johan van Laar Kumaran Naidoo Kenneth Hallet Setzen Comfort Bunting Jeremiah Nkeli Hugh Sutherland
REGISTERED OFFICE	PO Box 1787 Johannesburg 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	Absa Bank Limited
AUDITORS	Auditor General - Johannesburg
SECRETARY	Philipa Maduka
COMPANY REGISTRATION NUMBER	2000/004704/07
TAX REFERENCE NUMBER	9294142147
ATTORNEYS	Kevin Moodley & Associates
VALUE ADDED TAX NUMBER	4750224570

Index

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

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Abbreviations

ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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 external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based on appropriate accounting policies.

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

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

The directors have reviewed the entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is largely 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 or curtail materially the scale of the entity.

The external auditors are responsible for independently reviewing the annual finacial statements with the aim of expressing an opinion on the annual financial statements of the Johannesburg Metropolitan Bus Services SOC Limited. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 55, which have been prepared on the going concern basis, were tabled for discussion at the Audit Committee meeting held on 29 August and were approved by the board of directors on 30 August 2011 and were signed on its behalf by:

Director
Mr. Kumaran Naidoo

Director
Mr. Vincent Mntambo

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL OF THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY ON JOHANNESBURG METROPOLITAN BUS SERVICES SOC LTD

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Johannesburg Metropolitan Bus Services SOC LTD, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008 effective on 1 May 2011)(Companies Act) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), section 126(3) of the MFMA my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

6. In my opinion the financial statements present fairly, in all material respects, the financial position of the Johannesburg Metropolitan Bus Services SOC Limited as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and Companies Act.

Emphasis of matters

7. I draw attention to the matter below. My opinion is not modified in respect of these matters:

Irregular expenditure

8. As disclosed in note 45 to the financial statements, irregular expenditure to the amount of R29 323 780 was incurred as a result of non-compliance with the MFMA and supply chain management (SCM) regulations.

Restatement of corresponding figures

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered by management during 2010-11 financial year in the financial statements of the Johannesburg Metropolitan Bus Services SOC Ltd at, and for the year ended 30 June 2010

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages 57 to 66 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the Johannesburg Metropolitan Bus Services SOC Ltd.

Predetermined objectives

13. There were no material findings on the annual performance report

Compliance with laws and regulations

Expenditure management

14. In certain instances, the accounting officer did not take effective and appropriate steps to prevent irregular and fruitless and wasteful expenditure as required by section 95(d) of the MFMA.

Annual financial statements

15. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of capital assets and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

16. Goods and services with a transaction value above R200 000 were not procured by means of a competitive bidding process and the deviation was not approved by the accounting officer or his delegate in accordance with the SCM policy contravening SCM regulation 19(a) and 36(1).

17. Contracts were extended or renewed to such an extent that competitive bidding processes were being circumvented contravening MFMA sec 116(3)(a).

18. Payments were made to the providers in excess of the approved contract or quoted amount contravening SCM regulation 5.

19. In certain instances, awards were made to suppliers who did not submit a declaration on their employment by the state of their relation to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).

20. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a)

Bank reconciliations

21. The accounting officer did not ensure that all bank accounts were adequately administered and that the entity has and maintains a system of internal control of assets as required by section 85(5)a) and section 96(2)(b) of the MFMA

INTERNAL CONTROL

22. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

23. The accounting officer did not exercise oversight responsibility regarding financial reporting and compliance with applicable laws and regulations.

Financial and performance management

24. Management did not implement controls over daily and monthly processing and reconciling of bank and cash transactions.

25. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

26. Management did not monitor compliance with applicable laws and regulations such as MFMA and SCM regulations.

OTHER REPORTS

Investigations

27. An investigation is currently in progress with regards to the unauthorised change in supplier's banking details which resulted in a loss of R36 828 to Johannesburg Metropolitan Bus Services SOC Ltd for which insurance claim has been lodged.

Auditor - General

Johannesburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

JOHANNESBURG METROPOLITAN BUS SERVICES COMPANY (PROPRIETARY) LIMITED ("METROBUS")
AUDIT AND RISK COMMITTEE REPORT FOR THE 2010/11 FINANCIAL YEAR

REPORT OF THE AUDIT AND RISK COMMITTEE ("ARC") FOR THE YEAR ENDED 30 JUNE 2011

The ARC is a committee of the Metrobus board of directors and has statutory responsibilities in terms of the Companies Act No. 71 of 2008; it assists the board through advising and making submissions on financial reporting, oversight of the risk management process, internal financial controls, external and internal audit functions and statutory and regulatory compliance of the company. The ARC has a formal terms of reference and this report has been prepared as well in terms of the Municipal Finance Management Act no. 56 and related legislation.

In October 2010, the Audit and Risk Committees were merged to form one Committee, namely the Audit and Risk Committee.

Composition

The ARC consists of the following members:

- Mr Kumaran Naidoo (Chairperson);
- Mrs Maureen Manyama-Matome;
- Ms Rene Kenosi;
- Mr Kwanele Moyo; and
- Dr Daniel P. van der Nest.

The managing director, chief financial officer, executives and representatives from the external and internal auditors attend the committee meetings by invitation only. The internal and external auditors have unrestricted access to the audit committee.

Meetings

The ARC met five times (5) for the financial year ended 30 June 2010. Prior to the merger of the Audit and Risk Committees into one Committee, the Risk Committee had met once.

Statutory duties

The ARC has discharged the functions in terms of its charter and ascribed to it in terms of the Companies Act and the Local Government: Municipal Finance Management Act ("MFMA") as follows:

- Accepted the appointment of the Auditor General of South Africa ("AGSA") as auditor, who, in our opinion is independent of the Company;
- Took appropriate steps to ensure the financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Act;
- Reviewed and discussed the audited financial statements with management;
- Considered and, when appropriate, made recommendations on internal financial controls
- Dealt with concerns or complaints on the content of annual financial statements, and internal financial controls; and
- Reviewed legal matters that could have a significant impact on the organisation's financial statements; and
- Recommended the internal audit charter for approval to the Board.

The Effectiveness of Internal Control

Throughout the period under review, the ARC assisted the Board in discharging its duties by:

- Monitoring the systems to safeguard the Company's assets;
- Monitoring the establishment of and compliance with the enterprise risk management policies and procedures;
- Monitoring compliance with applicable laws, regulations and standards;

- Monitoring the adequacy of corrective action taken in terms of the recommendations and observations of internal and external auditors;
- Reviewing financial information and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards; and
- Overseeing the performance of the internal audit function and the external auditors.

Finance Function

The Committee believes that Mr Lawrence Maqekoane, the Chief Financial Officer ("CFO") has the appropriate expertise and experience to fulfil his responsibilities.

During the year under review the ARC was not satisfied that the finance unit had the appropriate capacity. However, the Committee has approved a strategy developed by the CFO to ensure the finance department is fully capacitated and is therefore satisfied that this challenge will be addressed.

Oversight of Risk Management

In accordance with section 94 (7)(i) of the Companies Act, the ARC has satisfied itself that the process and procedures for risk management are adequate to ensure that financial risks are identified and monitored.

The Committee has satisfied itself that the following areas have been appropriately addressed:

- Financial reporting risks;
- Internal financial control;
- Fraud risks as it relates to financial reporting; and
- IT risks as it related to financial reporting.

Integrated Report

The Board of directors delegated the authority to approve the annual financial statements and the integrated report to the ARC. The audit committee approved the financial statements and the integrated report.

External Auditors

The ARC is satisfied that the Auditor General of South Africa ("AGSA") is independent in accordance with section 270A of the Corporate Laws Amendment Act, and as such supported the re-appointment of the AGSA as the registered auditors for the 2012 financial year.

Discharge of Responsibilities

The Committee is satisfied that during the financial year under review it has discharged its legal and regulatory responsibilities.

Kumaran Naidoo
Chairperson of the Audit and Risk Committee

Directors' Report

The directors submit their report for the year ended 30 June 2011.

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 principally in South Africa.

New route schedules were introduced during the year under review. These shifts are more efficient and resulted in 41 buses being withdrawn from service. These buses were subsequently approved for sale as they were uneconomical to maintain.

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

The company recorded a net deficit of R 5,976,155 (2010: surplus R 13,252,181) for the year under review. This is mainly attributable to losses arising from scrapping of engines and gearboxes and the reduction in revenue as a result of deferment of unutilised trips.

The company does not have enough resources to cover its short term obligations as illustrated by a net current liability position of R 153,956,833 (2010: R 141,846,356)

3. GOING CONCERN

We draw attention to the fact that at 30 June 2011, the entity had accumulated deficits of R (54,001,630) , (2010: R 48,025,475) and that the entity's total assets exceed its liabilities by R 28,285,426 (2010: R 29,223,741).

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's opinion that the company would not be in a position to continue as a going concern on its current mandate. Management 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 increased operating subsidy of R300 million (2011: R292million) for the forthcoming 2011/2012 financial year to cover operating expenditure incurred.

Directors' Report

4. SUBSEQUENT EVENTS

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

The company started a pilot project on bio-fuels with two buses about a year ago. The project was successful and the number of buses will be increased to 25 during the 2011/12 financial year. In this regard, a Request for Information (RFI) has already been issued to solicit ideas on different technologies from interest parties. The procurement process is expected to be completed before the end of the 2011/12 financial year.

Obsolete stock with a book value of R2,8m and 41 buses with a book value of R3,8m which became uneconomical to maintain were approved for sale by the Board during the year under review. Offers were received through an open bidding process and the disposal of such stock and buses will be concluded during the 2011/12 financial year.

The participation of Metrobus management in the implementation of Phase 1A of the Rea Vaya Bus Rapid Transit (BRT) came to an end at the end of January 2011. The anticipated implantation date of Phase 1B of BRT is around June 2012 and is expected to clash with some existing Metrobus routes. A total number of 32 buses could be withdrawn from service due to the implementation of Phase 1B of BRT, this could eleviate on the aging bus fleet.

We further draw attention to the fact that the Board initiated a forensic investigation into certain alleged irregularities by management. The investigation commenced on 3 August 2011 and was conducted by an independent firm of investigators. The report from investigators concluded that there was no substances to allegations of irregularities by management.

The board has recommended different options and organisantional models for Metrobus in the future. The COJ mayoral commitee is expected to make a decision on the matter and the implementation will start immidiately there after. This study will be finalised during the 2011/12 financial year.

5. INTERNAL CONTROLS

5.1 DEVIATION FROM SUPPLY CHAIN PROCESSES

Bus Inspectorate Tender: There was a deviation from normal Supply Chain processes to the value of R227,900; a company of external inspectors was engaged urgently at the end of the strike to protect revenue and increase inspections. This company was awarded a tender by another company within the CoJ and is currently providing a similar service to that company.

6. 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.

7. BORROWING LIMITATIONS

In terms of the sale of business agreement, Johannesburg Metropolitan Bus Services (Pty) Limited does not have the authority to borrow funds on its behalf. All external funding is managed under the auspecies of the City of Johannesburg Metropolitan Municipality Assets and Liability Committee (ALCO). Additional loans of R6m in 2009 were received from the City of Johannesburg Metropolitan Municipality for the acquisition of assets in terms of the approved capital expenditure.There were no additional loans in the current year.

8. 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.

9. DIVIDENDS

No dividends were declared or paid to shareholders during the year.

Directors' Report

10. DIRECTORS

The directors of the entity during the year and to the date of this report are as indicated in the general information on page one of the financial statements

11. SECRETARY

The secretary of the entity is Philipa Maduka of:

Business address

Transportation House
1 Raikes Road
Braamfontein
2001

Postal address

PO Box 1787
Johannesburg
2000

12. CORPORATE GOVERNANCE

General

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

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

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

Board of directors

The Board:

- retains full control over the entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising:
  - 8 non-executive directors, all of whom are independent directors as defined in the Code; and
  - 1 executive director.
- has established a Board directorship continuity programme.

Chairperson and chief executive

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

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

Remuneration

The remuneration of the Managing Director who is the only executive director of the entity is determined by the Board of directors within the upper limits determined by the City of Johannesburg Metropolitan Municipality in terms of MFMA.

The members of the remuneration and Human Resources Subcommittee are Mr. Jeremiah Nkeli(Chairman), Mr Kenneth Setzin and Ms Danile Nyalunga. The Committee met on six seperate occassions during the financial year. Mr. Nkeli retired from the board on 30 June 2011 and Mr. Setzin was appointed chairman from 1 July 2011.

Directors' Report

Executive meetings

The committee has met on 28 separate occasions during the financial year. The committee scheduled to meet at least 12 times per annum.

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

The following meetings were held by the Board and its sub commitees:

Name	Board Meeting	Audit committee meeting	Audit steering committee meeting	HR and REMCO Committee meeting	Special audit and Risk Committee meeting	BRT committee meeting	Internal audit manager interview
Total number of meetings held	6	6	6	6	1	1	2
Jeremiah Nkeli	1			4			
Vincent Zwelibanzi Mntambo (Chairman)	6			1			
Comfort Bunting	4	4			1		
Kenneth Hallet Setzin	5			6		1	
Kumaran Naidoo	5	4			1	1	1
Hugh Sutherland	1						
Suzan Badanile Nyalunga	6			5	1	1	
Maureen Manyama-Matome	4	2			1		1
Rene Kenosi		4	6		1		
Daniel van Der Nest		2			1		
Kwanele Moyo		5	1				2

Audit and risk committee

The committee met 7 times during the financial year to review matters necessary to fulfil its role.

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 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.

Internal audit

The entity has outsourced its internal audit function to Gobodo Forensic and Investigative Accounting. This is in compliance with the Municipal Finance Management Act, 2003.

13. CONTROLLING ENTITY

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

14. BANKERS

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

The management of the Treasury function within the company is managed under the auspecies of Johannesburg Metropolitan Municipality Assets and Liabiliies Committee and Treasury department.

Directors' Report

15. AUDITORS

Auditor General - 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 270(2) of the Companies Act.

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 Commissioner, for the year ended 30 June 2011, 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.

Philipa Maduka
Company Secretary

Johannesburg Metropolitan Bus Services SOC Limited
31 August 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
ASSETS			
Current Assets			
Inventories	3	18,674,047	12,146,674
Loans to shareholders	4	-	13,249,360
Trade and other receivables	5	8,752,912	12,772,721
Prepayments	7	2,850,921	2,593,684
Insurance Fund	12	6,113,294	4,329,448
Cash and cash equivalents	8	7,302,255	406,681
		43,693,429	**45,498,568**
Non-Current Assets			
Property, plant and equipment	9	213,451,330	246,894,329
Intangible assets	10	7,537,356	7,632,093
Loans to shareholders	4	30,879,493	29,829,493
		251,868,179	**284,355,915**
Non-current assets held for sale and assets of disposal groups	13	3,678,737	-
Total Assets		**299,240,345**	**329,854,483**
LIABILITIES			
Current Liabilities			
Loans from shareholders	4	49,504,023	-
Other financial liabilities	14	43,812,568	93,646,851
Finance lease obligation	15	255,151	265,417
Trade and other payables	16	50,761,607	40,909,036
VAT payable	17	71,627	83,099
Deferred income	18	3,227,872	533,852
Provisions	19	6,323,985	6,408,101
		153,956,833	**141,846,356**
Non-Current Liabilities			
Other financial liabilities	14	78,864,395	122,676,958
Finance lease obligation	15	329,555	263,335
Retirement benefit obligation	6	37,779,000	35,844,093
Provisions	19	25,136	-
		116,998,086	**158,784,386**
Total Liabilities		**270,954,919**	**300,630,742**
Net Assets		**28,285,426**	**29,223,741**
NET ASSETS			
Share capital	20	54,774,330	54,774,330
Reserves			
Revaluation reserve	21	27,512,726	22,474,886
Accumulated deficit		(54,001,630)	(48,025,475)
Total Net Assets		**28,285,426**	**29,223,741**

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of services		90,703,855	114,520,921
Miscellaneous other revenue		11,077,429	10,550,554
Administration and management fees received		291,841,000	284,496,999
Recoveries		297,702	-
Actuarial Gain		219,000	5,577,000
Other income	24	2,254,744	1,422,949
Interest received - investment	29	272,471	875,817
Total Revenue		**396,666,201**	**417,444,240**
Expenditure			
Personnel	27	(186,914,090)	(180,868,055)
Depreciation and amortisation	30	(46,501,429)	(34,418,261)
Reversal of impairments/ Impairment loss	31	99,940	1,874,804
Finance costs	32	(20,438,923)	(26,730,338)
Bad debts	28	353,726	(746,610)
Repairs and maintenance		(43,242,151)	(58,141,739)
General Expenses	25	(104,690,752)	(106,683,367)
Total Expenditure		**(401,333,679)**	**(405,713,566)**
(Loss) gain on disposal of assets and liabilities		(1,308,677)	1,521,507
(Deficit) surplus for the year		**(5,976,155)**	**13,252,181**

Johannesburg Metropolitan Bus Services SOC Limited

(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Note(s)	Contribution from owners	Equity Loan	Total share capital	Revaluation reserve	Accumulated deficit	Net Assets
Balance at 01 July 2009		**13,726,387**	**41,047,943**	**54,774,330**	**22,474,886**	**(61,277,656)**	**15,971,560**
Changes in net assets		-	-	-	-	13,252,181	13,252,181
Surplus for the year		-	-	-	-	13,252,181	13,252,181
Total changes		**13,726,387**	**41,047,943**	**54,774,330**	**22,474,886**	**(48,025,475)**	**29,223,741**
Balance at 01 July 2010							
Changes in net assets		-	-	-	-	(5,976,155)	(5,976,155)
Deficit for the year		-	-	-	5,037,840	-	5,037,840
Revaluation of land and buildings		-	-	-	5,037,840	(5,976,155)	(938,315)
Total changes		**13,726,387**	**41,047,943**	**54,774,330**	**27,512,726**	**(54,001,630)**	**28,285,426**
Balance at 30 June 2011							

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Grants		291,841,000	284,497,000
Interest income		272,471	875,817
Receipts from related party		5,486,143	20,508,050
Other receipts		111,546,950	125,071,475
Other cash item		2,473,744	10,980,454
		411,620,308	441,932,796
Payments			
Employee costs		(193,840,793)	(180,868,055)
Suppliers		(99,421,937)	(107,429,978)
Finance costs		(20,438,923)	(26,730,338)
Other payments		(44,438,458)	(58,141,739)
		(358,140,111)	(373,170,110)
Net cash flows from operating activities	34	**53,480,197**	**68,762,686**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(11,592,236)	(12,413,516)
Proceeds from sale of property, plant and equipment	9	-	2,277,222
Purchase of other intangible assets	10	(1,321,032)	(3,280,690)
(Increase)/Reduction in Insurance Fund		(1,783,846)	5,310,587
Net cash flows from investing activities		**(14,697,114)**	**(8,106,397)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other financial liabilities		(93,646,846)	(24,415,080)
Repayment/Receipt of shareholders loan		61,703,383	(36,377,408)
Finance lease payments		55,954	415,926
Net cash flows from financing activities		**(31,887,509)**	**(60,376,562)**
Net increase/(decrease) in cash and cash equivalents		**6,895,574**	**279,727**
Cash and cash equivalents at the beginning of the year		406,681	126,954
Cash and cash equivalents at the end of the year	8	**7,302,255**	**406,681**

Accounting Policies

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

The applicable GRAP standards consists of the following:

GRAP1: Presentation of Financial Statements.

GRAP2: Cash Flow Statements.

GRAP3: Accounting Policies, Changes in Accounting Estimates and Errors.

GRAP4: The Effect of changes in Foreign Exchange Rates.

GRAP5: Borrowing Costs.

GRAP9: Revenue from Exchange Transactions.

GRAP12:Inventories.

GRAP13: Leases.

GRAP14: Events after the reporting date.

GRAP17: Property, Plant and Equipment.

GRAP19: Provisions, Contigent and Liabilities and Contigent Assets.

GRAP100: Non-Current Assets held for Sale and Discontinued Operations.

GRAP102: Intangible Assets.

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

These accounting policies are consistent with those used in the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make 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 and/or loans and receivables

The entity assesses its trade receivables and loans and 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 and loans and 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. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 operation surplus note.

Fair value estimation

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - 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.

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 6.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 doubtful debts

On debtors 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.

1.2 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, 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 at no cost, or for a nominal cost, 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.

Land and Buildings is 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.

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

Property, plant and equipment is 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.

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.

Accounting Policies

1.2 Property, plant and equipment (continued)

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 in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Average useful life
Land	Indefinite
Buildings	15 - 35 years
Plant and machinery	6 - 16 years
Furniture and fixtures	6 - 20 years
Motor vehicles	4 - 17 years
Office equipment	6 - 10 years
IT equipment	3 - 10 years
Leasehold improvements	8 - 10 years
Major components of Buses (Engines, Gearboxes)	5 - 8 years
Ancillary fleet equipment and security	6 -15 years
Fare Collection Equipment	6 - 10 years
Buses	10 - 30 years
Tools and loose gear	2 -11 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.

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.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is derecognised when:

it is disposed;

no future economic benefits or service potential are expected from its use or disposal.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Accounting Policies

1.3 Heritage assets (continued)

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.

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	2 -12 years

1.4 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.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

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

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

Accounting Policies

1.4 Financial instruments (continued)

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) economic entities

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

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 loans and receivables.

Trade and other payables

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

Accounting Policies

1.4 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 recorded 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.

Held for sale assets

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.

Financial liabilities

Accounting Policies

1.4 Financial instruments (continued)

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.

1.5 Leases

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

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.

1.6 Inventories

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

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

Accounting Policies

1.6 Inventories (continued)

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.

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.

When inventories are issued to the business units, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher of 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.

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 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Accounting Policies

1.9 Employee benefits (continued)

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

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

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

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

1.10 Provisions and contingencies

Provisions are recognised when:

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

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

Where 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.

Accounting Policies

1.10 Provisions and contingencies (continued)

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.

1.11 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.

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.

1.12 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 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.

1.13 Borrowing costs

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

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

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current 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.

Accounting Policies

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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.

1.18 Use of estimates

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

1.19 Presentation of currency

These annual financial statements are presented in South African Rands.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by the relevant Standard of GRAP

1.21 Revaluation reserve

The surplus arising from the revaluation of Land and Buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, 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.

Accounting Policies

1.22 Gratuities

The 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.

1.23 Related Parties

Johannesburg Metropolitan Bus Services SOC Limited is an entity of The City of Johannesburg Metropolitan Municipality incorporated in South Africa. Refer to note 35 for the list of the related parties (other entities owned by The City) and the outstanding balances for transactions entered into during the year.

1.24 Prepayments

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) on a basis consistent with prior years.

Directive 5 on determining the GRAP reporting framework outlines the following list of standards and other pronouncements that should be applied by the municipal entities in preparing their financial statements. Entities may be allowed to choose between the application of IFRSs, IPSASs or standards of GRAP which are not yet effective:

- Entities may use the principles outlined in GRAP 24 on Presentation of Budget Information to inform compliance with requirements of GRAP 1 or early adopt GRAP 24.
- GRAP 23 on Revenue from non exchange transactions becomes effective from 1 April 2012. Entities have a choice of using GRAP 23 to formulate an accounting policy or early adopt GRAP 23
- Entities may use GRAP 21on Impairment of non cash generating assets to formulate an accounting policy or early adopt GRAP 21 on Impairment of non cash generating assets.
- Entities may use GRAP 26 on Impairment of cash generating assets to formulate an accounting policy or early adopt GRAP 26 on Impairment of cash generating assets.
- Entities may continue applying IAS 19 if they previously applied IAS 19 or formulate an accounting policy based on GRAP 25 on Employee Benefits.
- Entities may continue applying IAS 32, 39 and IFRS 7 if they previously applied IAS 32, 39 and IFRS 7 or formulate an accounting policy based on GRAP 104 on Financial Instruments

3. Inventories

Consumable stores	351,919	149,734
Spare parts	18,839,722	13,461,138
Tag stock	1,517,721	1,322,576
Uniform Stock	108,882	116,501
Fuel (Diesel, Petrol)	1,396,611	1,095,643
Less: Provision for obsolescence	(3,540,808)	(3,998,918)
	18,674,047	**12,146,674**

4. Loans to/from shareholders

City of Johannesburg Metropolitan Municipality - Notional loans Terms and conditions: 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 6.1 for further breakdown of the balance. Refer to note 6 for information regarding the Retirement Liabilities.	30,879,493	29,829,493
City of Johannesburg Metropolitan Municipality - Sweeping account Terms and conditions: Refer to note 5.2 , a loan earning or paying interest at Prime less 4.5% with no repayment conditions.	(49,504,023)	13,249,360
	(18,624,530)	**43,078,853**
Non-current assets	30,879,493	29,829,493
Current assets	-	13,249,360
Current liabilities	(49,504,023)	-
	(18,624,530)	**43,078,853**

Credit quality of loans to shareholders

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Loans to/from shareholders (continued)

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

Credit rating		
A	32,527,962	53,162,594
Fair value of loans to and from shareholders		
Loans from shareholders	32,527,962	53,162,594

Loans to shareholders past due but not impaired

Loans to shareholders which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R - (2010: R 23,948,781) were past due but not impaired.

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

1 month past due	32,527,962	53,162,594
Sweeping account		
Loans at beginning of the year	13,249,360	(23,830,955)
Receipts	(1,186,223)	(173,165)
Repayments	(61,567,101)	37,253,480
	(49,503,964)	**13,249,360**

5. Trade and other receivables

Trade debtors	1,314,251	2,626,060
Staff debtors	361,013	599,720
Other deposits	20,702	20,702
Less: Provision for impairment	(818,762)	(1,377,799)
PAYE	-	94,512
Sundry debtor	5,620,874	2,115,885
Insurance debtor	50,739	32,415
Nedbank Debtor	297,702	-
Related party debtors	1,906,393	8,661,226
	8,752,912	**12,772,721**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 1,413,665 (2010: R 1,731,523) were past due but not impaired.

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

1 month past due	425,177	1,443,100
2 months past due	703,615	276,103
3 months past due	284,873	12,320

Trade and other receivables impaired

As of 30 June 2011, trade and other receivables of R 600,174 (2010: R 1,191,462) were impaired and provided for.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Trade and other receivables (continued)

The ageing of these loans is as follows:

3 to 6 months	216,554	874,453
Over 6 months	383,620	317,009

The carrying amount of trade and other receivables are denominated in Rand

Rand	600,174	1,191,462

Reconciliation of provision for impairment of trade and other receivables

Opening balance	1,191,462	631,189
Provision for impairment	-	760,869
Unused amounts reversed	(167,389)	(200,596)
	1,024,073	**1,191,462**

The Trade and Receivables ageing at 30 June 2011 is as follows:

Government/ Entities	Total debtors	896,823
	Current	0
	1-30 Days	298,988
	31-60 Days	17,950
	61-90 Days	235,491
	91-180 Days	209,752
	181-360 Days	106,260
	+361 Days	28,381
Business		
	Total debtors	994,126
	Current	171,333
	1-30 Days	103,795
	31-60 Days	667,069
	61-90 Days	45,124
	91-180 Days	6,801
	181-360 Days	0
	+361 Days	0
Other debtors		
	Total debtors	294,225
	Current	0

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Trade and other receivables (continued)

1-30 Days	22,393
31-60 Days	18,595
61-90 Days	4,257
91-180 Days	0
181-360 Days	0
+361 Days	248,978

6. Employee benefit obligations

6.1Defined benefit plan

Post-retirement liability		
Post-Retirement Medical Aid Plan	(17,879,000)	(19,024,000)
Post-Retirement Housing Subsidy Plan	(270,000)	(366,000)
Retirement Gratuity Plan	(19,630,000)	(16,454,093)
	(37,779,000)	**(35,844,093)**

6.1.1Post retirement medical aid plan

Amounts recognised in the Statement of financial position

Movements for the year

Opening balance	19,024,000	21,635,000
Benefits paid	(446,000)	(291,000)
Net expense recognised in the statement of financial performance	(699,000)	(2,320,000)
	17,879,000	**19,024,000**

Net expense recognised in the statement of financial performance

Current service cost	139,000	-
Past service cost	-	329,000
Interest cost	1,720,000	1,817,000
Actuarial (gains) losses	(2,558,000)	(4,466,000)
	(699,000)	**(2,320,000)**

Notional loan account

Opening balance	18,186,000	17,037,000
Interest received	1,017,000	1,149,000
Balance at end of year	**19,203,000**	**18,186,000**

Key assumptions used

The principal actuarial assumptions used were as follows on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected rate of return on assets	9.00 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Employee benefit obligations (continued)

Other assumptions:

Age of spouse	-	Husbands 5 Years older than wives.
Mortality of in-service members (not (not rated down for females in current year).	-	In accordance with the SA 85-90 (Light) ultimate table
Mortality of pensioners female tables (rated down 2 years for females and males)	-	In accordance with the PA(90) ultimate male and

6.1.2Post retirement housing subsidy plan

Movements for the year

Opening balance	366,000	562,000
Benefits paid	(93,000)	-
Net expense recognised in the statement of financial performance	(3,000)	(196,000)
	270,000	**366,000**

Net expense recognised in the statement of financial performance

Current service cost	14,000	8,000
Interest cost	33,000	47,000
Actuarial (gains) losses	(50,000)	(251,000)
	(3,000)	**(196,000)**

Notional loan account

Opening balance	-	562,400
Payments against account	-	(562,400)
Balance at end of year	**-**	**-**

Key assumptions used

Assumptions used on last valuation on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected rate of return on assets	9.00 %	9.00 %

6.1.3Post retirement gratuity plan

Amounts recognised in the Statement of financial position

Movements for the year

Opening balance	16,454,000	17,515,000
Benefits paid	(701,000)	(1,672,000)
Net expense recognised in the statement of financial performance	3,876,000	611,000
	19,629,000	**16,454,000**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. **Employee benefit obligations (continued)**

Net expense recognised in the statement of financial performance

Interest cost	1,487,000	1,471,000
Actuarial (gains) losses	2,389,000	(860,000)
	3,876,000	**611,000**

Notional loan account

Opening balance	11,642,000	12,933,000
Interest received	646,000	793,000
Payments against account	-	(2,084,000)
Benefits payments	(613,000)	-
Balance at end of year	**11,675,000**	**11,642,000**

Key assumptions used

Assumptions used on last valuation on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected rate of return on assets	9.00 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(37,779,000)	(35,844,093)

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

Opening balance	35,844,000	39,712,000
Benefits paid	(1,240,000)	(1,963,000)
Net expense recognised in the statement of financial performance	3,175,000	(1,905,000)
Closing balance	**37,779,000**	**35,844,000**

Net expense recognised in the statement of financial performance

Current service cost	153,000	8,000
Past service cost	8,000	329,000
Interest cost	3,233,000	3,335,000
Actuarial (gains) losses	(219,000)	(5,577,000)
Total included in employee related costs	**3,175,000**	**(1,905,000)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.60 %	9.00 %
Expected rate of return on assets	9.00 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Prepayments

Prepayments consists mainly of Vehicles Licenses, Buses Licenses, and Software Licenses fees payable on an annual basis. The cost are being released to the Statement of Financial Performance over a period relating to the prepayment.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	99,808	75,582
Bank balances	7,202,447	331,099
	7,302,255	**406,681**

Credit quality of cash at bank and short term deposits, excluding cash on hand

There were only cash on hand at the end of current reporting period.

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	15,172,610	-	15,172,610	16,800,000	-	16,800,000
Buildings	38,519,091	(5,691,319)	32,827,772	31,610,087	(4,444,169)	27,165,918
Plant and machinery	4,019,053	(2,465,736)	1,553,317	4,019,053	(2,068,377)	1,950,676
Furniture and fixtures	2,757,366	(2,016,432)	740,934	2,682,479	(1,782,552)	899,927
Motor vehicles	3,413,450	(1,570,335)	1,843,115	3,329,512	(1,404,108)	1,925,404
Office equipment	3,333,530	(1,230,693)	2,102,837	3,277,494	(977,425)	2,300,069
IT equipment	5,745,969	(4,275,663)	1,470,306	5,595,786	(3,827,177)	1,768,609
Leasehold improvements	1,344,350	(494,727)	849,623	1,344,350	(494,727)	849,623
Other property, plant and equipment	4,814,981	(4,150,694)	664,287	4,814,981	(3,748,746)	1,066,235
Fare collection equipment	12,355,052	(11,199,781)	1,155,271	12,355,051	(10,130,317)	2,224,734
Spare parts	735,475	-	735,475	735,475	-	735,475
Specialised vehicles	497,988,228	(344,921,100)	153,067,128	498,509,425	(310,516,154)	187,993,271
Tools and loose gear	2,737,297	(1,468,642)	1,268,655	2,386,863	(1,172,475)	1,214,388
Total	**592,936,452**	**(379,485,122)**	**213,451,330**	**587,460,556**	**(340,566,227)**	**246,894,329**

Reconciliation of property, plant and equipment - 2011

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Revaluations	Depreciation	Total
Land	16,800,000	-	-	-	-	(1,627,390)	-	15,172,610
Buildings	27,165,918	243,774	-	-	-	6,665,230	(1,247,150)	32,827,772
Plant and machinery	1,950,676	-	-	-	-	-	(397,359)	1,553,317
Furniture and fixtures	899,927	81,870	-	-	(6,983)	-	(233,880)	740,934
Motor vehicles	1,925,404	83,938	-	-	-	-	(166,227)	1,843,115
Office equipment	2,300,069	56,037	-	-	-	-	(253,269)	2,102,837
IT equipment	1,768,609	435,793	(499)	-	-	-	(733,597)	1,470,306
Leasehold improvements	849,623	-	-	-	-	-	-	849,623
Other property, plant and equipment	1,066,235	-	-	-	-	-	(401,948)	664,287
Fare collection equipment	2,224,734	-	-	-	-	-	(1,069,463)	1,155,271
Spare parts	735,475	-	-	-	-	-	-	735,475
Specialised vehicles	187,993,271	10,347,372	(1,308,178)	(3,678,737)	-	-	(40,286,600)	153,067,128
Tools and loose gear	1,214,388	343,452	-	-	6,983	-	(296,168)	1,268,655
	246,894,329	**11,592,236**	**(1,308,677)**	**(3,678,737)**	**-**	**5,037,840**	**(45,085,661)**	**213,451,330**

Reconciliation of property, plant and equipment - 2010

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	16,800,000	-	-	-	-	16,800,000
Buildings	28,060,240	181,526	4,178	-	(1,080,026)	27,165,918
Plant and machinery	2,165,717	42,327	-	10,232	(267,600)	1,950,676
Furniture and fixtures	995,169	14,392	-	-	(109,634)	899,927
Motor vehicles	1,997,638	-	-	-	(72,234)	1,925,404
Office equipment	1,404,148	1,231,972	(9,909)	-	(326,142)	2,300,069
IT equipment	1,781,593	477,938	(30,770)	-	(460,152)	1,768,609
Leasehold improvements	970,874	-	-	-	(121,251)	849,623
Other property, plant and equipment	1,349,303	-	-	-	(283,068)	1,066,235
Fare collection equipment	1,199,973	-	-	-	1,024,761	2,224,734
Spare parts	710,071	735,475	(710,071)	-	-	735,475
Specialised vehicles	212,090,138	9,378,077	(9,143)	(10,232)	(33,455,569)	187,993,271
Tools and loose gear	1,050,599	351,809	-	-	(188,020)	1,214,388
	270,575,463	**12,413,516**	**(755,715)**	**-**	**(35,338,935)**	**246,894,329**

Pledged as security

2006 Mercedes Benz Buses Used to secure borrowings granted by the City of Johannesburg Metropolitan Municipality	70,553,936	86,169,842
2002 Volvo Buses Used to secure borrowings granted by INCA	78,236,422	58,100,801

Revaluations

Land and buildings are re-valued independently every 2 years.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	17,881,049	(10,343,693)	7,537,356	15,238,984	(7,606,891)	7,632,093

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	7,632,093	1,321,032	(1,415,769)	7,537,356

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software	3,430,727	3,280,690	920,676	7,632,093

Additional information

The net increase for computer software for the current year was R1,312,032 which resulted in a net increase in amortisation amounting to R152,733.

11. Deferred tax

Deffered tax asset / (liability)

Increase (decrease) in tax losses available for set off against future taxable income	9,535,828	14,874,632
Originating temporary difference on tangible fixed assets	(6,666,689)	(12,372,584)
Income received in advance	(3,227,871)	(309,437)
Payments received in advance	-	714,351
Other movements	(6,015,520)	(10,595,346)
Provisions	6,374,252	7,688,384
	-	-

12. Insurance fund

Movement for the year		
Opening balance	4,329,446	9,640,035
Contributions to the fund	5,057,604	-
Claims against the fund	(3,273,756)	(5,310,589)
	6,113,294	**4,329,446**

The company has a Bus Fleet Self Insurance Fund , which is administered by Guardrisk, an insurance fund administrator. Contributions to this insurance contigency fund are made at the discretion of the company's directors. Claims against the fund are processed as and when qualifying incidents occur.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Assets classified as held for sale

Assets held-for-sale relate to disposal of buses. These disposals are expected to occur within the next 12 months and have therefore been classified as assets held-for-sale. The proceeds from disposals are expected to exceed the net carrying amount of the assets, and accordingly no impairment loss has been recognised on the classification of these assets as held-for-sale

14. Other financial liabilities

Liabilities		
Structured loans	69,259,517	83,010,724
Terms and conditions: City of Johannesburg Metropolitan Municipality 2007 Capex Loan		
Infrastructure Finance Corporation Limited (INCA)	-	28,770,324
Non Annuity Loans	9,604,878	6,320,726
Terms and conditions: City of Johannesburg Metropolitan Municipality 2008 Capex Loan		
Debentures	-	4,575,184
Terms and conditions: City of Johannesburg Metropolitan Municipality 2009 Capex Loan		
	78,864,395	**122,676,958**
Current portion of long term liabilities		
Structured loans	15,042,245	13,764,807
Infrastructure Finance Corporation Limited (INCA)	28,770,323	79,882,044
	43,812,568	**93,646,851**
Non-current liabilities		
At amortised cost	78,864,395	122,676,958
Current liabilities		
At amortised cost	43,812,568	93,646,851
	122,676,963	**216,323,809**

15. Finance lease obligation

Minimum lease payments due		
- within one year	360,449	308,042
- in second to fifth year inclusive	266,305	285,923
	626,754	593,965
less: future finance charges	(42,048)	(65,213)
Present value of minimum lease payments	**584,706**	**528,752**
Present value of minimum lease payments due		
- within one year	329,555	263,335
- in second to fifth year inclusive	255,151	265,417
	584,706	**528,752**
Non-current liabilities	329,555	263,335
Current liabilities	255,151	265,417
	584,706	**528,752**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Trade and other payables

Trade payables	9,905,458	7,522,238
Other payables	1,413,721	-
Accrued leave pay	16,523,239	14,142,217
Other accrued expenses	15,780,189	16,080,165
Sundry Creditors	7,139,000	2,548,736
Related party creditor	-	615,680
	50,761,607	**40,909,036**

17. VAT payable

Tax payables	71,627	83,099

VAT payable relates to the advertising revenue , the insurance related claims billing and own accident repairs recoveries.

18. 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 year

Balance at the beginning of the year	533,852	589,852
Additions during the year	2,694,020	(56,000)
	3,227,872	**533,852**

19. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Provision for incentive bonus and 13th cheques	6,408,101	9,386,412	(9,445,392)	6,349,121

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Provision for incentive bonus and 13th cheques	6,076,022	9,799,397	(9,467,318)	6,408,101

Non-current liabilities	25,136	-
Current liabilities	6,323,985	6,408,101
	6,349,121	**6,408,101**

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

The provision for service bonuses is expected to realise during November 2011, as the annual service bonuses are paid to employees during November.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Share capital

Authorised		
1 000 Ordinary shares of R1 each	1,000	1,000
Reconciliation of number of shares issued:		
Reported as at 01 July 2010	2	2

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

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

21. Revaluation reserve

Land and Buildings were 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	22,474,886	22,474,886
Change during the year	5,037,840	-
	27,512,726	**22,474,886**

22. Revenue

Rendering of services	90,703,855	114,520,921
Miscellaneous other revenue	11,077,429	10,550,554
	101,781,284	**125,071,475**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	90,703,855	114,520,921
Miscellaneous other revenue	11,077,429	10,550,554
	101,781,284	**125,071,475**

23. Other revenue

Administration and management fees received - related party	291,841,000	284,496,999
Other recoveries	297,702	-
Actuarial gains/ losses	219,000	5,577,000
Insurance recovery	2,254,744	1,422,949
	294,612,446	**291,496,948**

24. Other income

Sundry revenue	656,617	418,740
Insurance from re-insurance recoveries	1,598,127	1,004,209
	2,254,744	**1,422,949**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. General expenses

Advertising	739,124	981,828
Assessment rates & municipal charges	74,715	65,027
Auditors Remuneration	2,345,234	2,099,238
Bank charges	167,662	288,388
Cleaning	3,251,892	3,707,615
Commission paid	3,108,903	2,861,537
Computer expenses	2,017,235	1,223,059
Consulting and professional fees	12,227,145	10,223,345
Entertainment	350,699	225,542
Fines and penalties	-	1,771
Insurance	6,301,736	5,846,892
Conferences and seminars	181,731	117,275
Lease rentals on operating lease	2,205,406	1,856,196
Motor vehicle expenses	59,482,604	64,481,209
Placement fees	201,244	488,257
Postage and courier	5,211	3,262
Printing and stationery	346,939	824,485
Royalties and license fees	581,824	351,512
Security (Guarding of municipal property)	5,765,667	4,685,309
Staff welfare	109,382	148,027
Subscriptions and membership fees	282,732	34,624
Telephone and fax	1,688,363	1,644,643
Training	1,076,692	291,831
Travel - local	140,683	1,398
Electricity	1,196,063	1,876,795
Sewerage and waste disposal	596,918	203,454
Water	211,629	20,221
Uniforms	31,465	2,105,652
Irregular, fruitless and wasteful expenditure	1,854	24,975
	104,690,752	**106,683,367**

26. Operating surplus

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

Operating lease charges		
Premises		
◦ Contractual amounts	344,266	317,992
Equipment		
◦ Contractual amounts	1,861,140	1,538,204
	2,205,406	**1,856,196**
(Loss) gain on sale of property, plant and equipment	(1,308,677)	1,521,507
Amortisation on intangible assets	1,244,830	(1,119,558)
Depreciation on property, plant and equipment	45,256,599	35,537,819
Employee costs	186,914,090	180,868,055
Operating Leases		
- Within one year - Premises	164,920	164,920
- In second to fifth year inclusive - Premises	197,904	362,824

Notes to the Annual Financial Statements

Figures in Rand		2011	2010
27. Employee related costs			
Employee related costs : Salaries and wages		131,033,619	122,473,982
Housing benefits and allowances		1,753,780	1,891,549
Overtime payments		15,732,906	19,420,578
Bonus		10,360,360	9,792,686
Travel, motor car, accommodation, subsistence and other allowances		2,502,812	2,728,099
Less: Employee costs included in other expenses		292,132	654,678
Other payroll levies		6,293,518	6,211,838
Post-employment benefits - Pension - Defined contribution plan	6	18,712,768	17,544,645
Long-service awards		9,000	-
Board members retainer fees		223,195	150,000
		186,914,090	**180,868,055**
Remuneration of chief finance officer			
Annual Remuneration		856,272	34,149
Car Allowance		7,800	462
Contributions to UIF, Medical and Pension Funds		35,928	-
		900,000	**34,611**
Corporate and human resources (corporate services)			
Annual Remuneration		601,423	569,482
Car Allowance		14,014	63,120
Performance Bonuses		66,419	56,434
Contributions to UIF, Medical and Pension Funds		46,435	73,106
		728,291	**762,142**
Managing Director			
Annual Remuneration		1,207,783	987,679
Car Allowance		152,273	324,000
Performance Bonuses		129,943	96,465
Contributions to UIF, Medical and Pension Funds		40,582	18,000
		1,530,581	**1,426,144**
GM: Technical			
Annual Remuneration		726,227	603,182
Car Allowance		8,642	80,000
Performance Bonuses		79,218	66,264
Contributions to UIF, Medical and Pension Funds		1,497	-
		815,584	**749,446**
Remuneration: Internal Audit			
Annual Remuneration		-	680,034
Car Allowance		-	30,852
Performance Bonuses		-	50,061
Contributions to UIF, Medical and Pension Funds		-	53,394
		-	**814,341**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

27. Employee related costs (continued)

Remuneration: Company Secretary

Annual Remuneration	520,000	30,179
Car Allowance	7,800	5,815
Contributions to UIF, Medical and Pension Funds	1,497	-
	529,297	**35,994**

Ex Chief Financial Officer

Annual Remuneration	180,936	840,683
Car Allowance	-	24,000
Performance Bonuses	97,724	75,416
Contributions to UIF, Medical and Pension Funds	-	139,535
	278,660	**1,079,634**

Ex Company Secretary

Annual Remuneration	13,134	446,353
Car Allowance	587	34,830
Performance Bonuses	-	45,666
	13,721	**526,849**

28. Debt impairment

Bad debts	(353,726)	746,610

29. Investment revenue

Interest revenue		
Interest charged on trade and other receivables	41,101	-
Interest earned - sweeping accounts	231,370	875,817
	272,471	**875,817**

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

30. Depreciation and amortisation

Property, plant and equipment	45,256,599	35,537,819
Intangible assets	1,244,830	(1,119,558)
	46,501,429	**34,418,261**

31. Impairment of assets

Impairments		
Inventories	(99,940)	(1,874,804)
The credit amount for the current financial year relates to the reduction in obsolete stock provision arising from the review of stock on hand.		

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

32. Finance costs

Non-current borrowings	19,252,699	26,730,338
Swap interest paid	1,186,224	-
	20,438,923	**26,730,338**

33. Auditors' remuneration

Fees	2,345,234	2,099,238

34. Cash generated from operations

(Deficit) surplus	(5,976,155)	13,252,181
Adjustments for:		
Depreciation and amortisation	46,073,597	34,418,261
Loss on sale of assets and liabilities	(1,308,677)	(1,521,507)
Impairment reversals	(99,940)	(1,874,804)
Debt impairment	(353,726)	746,610
Movements in retirement benefit assets and liabilities	6,954,000	(3,867,907)
Movements in provisions	(33,844)	332,079
Inventories	(7,317,964)	2,197,117
Trade and other receivables	7,290,793	24,385,251
Consumer debtors	353,726	(746,610)
Prepayments	2,850,920	234,727
Trade and other payables	7,752,959	1,294,723
VAT	(11,472)	(31,435)
Deferred income	(2,694,020)	(56,000)
	53,480,197	**68,762,686**

35. Commitments

Commitments in respect of capital expenditure:

Authorised and not yet contracted for		
◦ Property, plant and equipment	6,000,000	5,900,000
Authorised and contracted for		
◦ Intangible assets	-	100,000
This expenditure will be financed from:		
Internal cash	6,000,000	5,260,000

Operating leases – as lessee (Buildings)

Minimum lease payments due		
Premises - Contractual amounts	355,184	317,992

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Contingencies

Economic entity

Metropolitan Bus Services (Pty) Ltd

A VAT calculation was performed during the year by KPMG and based on the documentation, arguments and calculations done, Metrobus may potentially have a VAT exposure of R264,261.27.

Ex employee

A labour dispute exists between Metrobus and an ex-employee. Should the dispute be settled in favour of the ex-employee, Metrobus could be held liable for claims up to R728,290. At this point the outconme of the dispute is still uncertain.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

37. Related parties

Relationships	
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (Pty) Ltd
	City of Johannesburg Property Company SOC Ltd
	City of Johanneburg Metropolitan Municipality
	City Power Johannesburg SOC Ltd
	Johannesburg City Parks NPC
	Johannesburg Development Agency SOC Ltd
	Johannesburg Metropolitan Bus Services SOC Ltd
	Johannesburg Roads Agency SOC Ltd
	Johannesburg Tourism Company NPC
	Johannesburg Water SOC Ltd
	Metropolitan Trading Company SOC Ltd
	Pikitup Johannesburg SOC Ltd
	Roodepoort City Theatre NPC
	The Johannesburg Civic Theatre SOC Ltd
	The Johannesburg Fresh Produce Market SOC Ltd
	The Johannesburg Zoo NPC
	Fried shelf 128 (Pty) Ltd
	Greater Newtown Development Company (Pty) Ltd
	Constitutional Hill Development Company (Pty) Ltd
	Joshco JV

Related party balances

Amounts included in Loans, Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	1,077,803	8,677,781
Amounts included in Loans, Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	642,333	632,235

Related party transactions

Sales to related parties		
City of Johannesburg Metropolitan Municipality	291,841,000	284,961,194
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	23,407	23,616
Johannesburg Social Housing Company (Pty) Ltd	508,156	474,350
Pikitup Johannesburg (Pty) Ltd	423,584	370,877
City Power Johannesburg (Pty) Ltd	746,442	291,618
	1,701,589	**1,160,461**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

38. Directors' emoluments

No emoluments were paid to the executive director Herman van Laar or any individuals holding a prescribed office during the year. Refer note 26 for remuneration.

Non-executive

2011

	Directors' fees	Total
Jeremiah Nkeli	48,608	48,608
Vincent Zwelibanzi Mntambo (Chairman)	109,115	109,115
Comfort Bunting	31,745	31,745
Kenneth Hallet Setzin	81,354	81,354
Kumaran Naidoo	75,147	75,147
Suzan Badanile Nyalunga	85,322	85,322
Maureen Manyama-Matome	64,482	64,482
H Sutherland	4,960	4,960
R Kenosi	73,414	73,414
M Moyo	56,550	56,550
D van der Nest	34,720	34,720
D Robberts	19,840	19,840
	685,257	**685,257**

2010

	Directors' fees	Total
Jeremiah Nkeli	87,250	87,250
Vincent Zwelibanzi Mntambo (Chairman)	116,535	116,535
Comfort Bunting	38,428	38,428
Kenneth Hallet Setzin	114,733	114,733
Kumaran Naidoo	129,555	129,555
Suzan Badanile Nyalunga	64,647	64,647
Maureen Manyama-Matome	73,006	73,006
DL Roberts	47,833	47,833
R Kenosi	57,753	57,753
DP van der Nest	91,778	91,778
R Wajoodeen	40,756	40,756
K Moyo	4,960	4,960
	867,234	**867,234**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

39. Change in estimate

Property, plant and equipment

The useful life of property, plant and equipment was re-assessed at the reporting date. This resulted in an increase in useful life mainly relating to assest that has reached the end of its useful life during the current and prior year. The useful life was also re-assessed for assets that are going to reach the end of its useful life within the next year. These assets are still in a good working condition based on the asset verification performed at year end. The useful life adjustment resulted in a decrease in depreciation in the current year amounting to R1,403,427. The remaining useful lives of assets has changed from 8 years to 11 years on average. The effect on future periods could not reasonably be determined.

Intangible assets

The useful life of property, plant and equipment was re-assessed at the reporting date. This resulted in an increase in useful life mainly relating to assest that has reached the end of its useful life during the current and prior year. The useful life was also re-assessed for assets that are going to reach the end of its useful life within the next year. These assets are still in a good working condition based on the asset verification performed at year end. The useful life adjustment resulted in an increase in depreciation in the current year amounting to R427,832. The remaining useful lives of assets has changed from 41 months to 86 months on average. The effect on future periods could not reasonably be determined.

40. Prior period errors

Statement of financial position		
Increase in finance lease liability	584,706	528,752
Property, plant and equipment	-	(10,897,803)
Intangible assets	-	1,276,495
	584,706	**(9,092,556)**
Statement of financial performance		
Operating lease expense	344,266	1,856,196
Finanse lease expense	378,534	-
Depreciation	-	(10,897,802)
Amortisation	-	1,276,495
	722,800	**(7,765,111)**

The correction of the error(s) results in the restatement of comparative figures as follows - 2011

Operating lease expense (R344,266)
Management discovered that leased equipment was wrongfully disclosed as operating leases; it should have been classified as finance leases based on the criteria set out in IAS 17.20.

Finance lease expense (R378,534)
Management discovered that leased equipment was wrongfully disclosed as operating leases; it should have been classified as finance leases based on the criteria set out in IAS 17.20.)

Finance lease liability
Management discovered that leased equipment was wrongfully disclosed as operating leases; it should have been classified as finance leases based on the criteria set out in IAS 17.20.)

The correction of the error(s) results in the restatement of comparative figures as follows - 2010

Operating lease expense - (R 1,856,196)
Management discovered that leased equipment was wrongfully disclosed as operating leases; it should have been classified as finance leases based on the criteria set out in IAS 17.20.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

40. Prior period errors (continued)

Property, plant and equipment
The useful life was not appropriately reviewed for assets that are fully depreciated but are still being used. This error has been corrected and disclosed accordingly.

41. Risk management

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for 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 4, 15, 14, cash and cash equivalents disclosed in note 8, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

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 (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

Liquidity risk

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

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

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

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

Credit risk

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

41. Risk management (continued)

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

Trade receivables comprise a widespread customer base. Management 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	2011	2010
Loans to shareholder	-	23,948,781
Trade and other receivables	8,479,374	4,297,837

Price 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.

42. 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 thefore 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.

43. Events after the reporting date

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

43. Events after the reporting date (continued)

The company started a pilot project on bio-fuels with two buses about a year ago. The project was successful and the number of buses will be increased to 25 during the 2011/12 financial year. In this regard, a Request for Information (RFI) has already been issued to solicit ideas on different technologies from interest parties. The procurement process could be completed before the end of the 2011/12 financial year.

Obsolete stock with a book value of R2,9m which became uneconomical to maintain was approved for sale by the Board during the year under review. Offers were received through an open bidding process and the disposal of such stock will be concluded during the 2011/12 financial year.

The participation of Metrobus management in the implementation of Phase 1A of the Rea Vaya Bus Rapid Transit (BRT) came to an end at the end of January 2011. The anticipated implantation date of Phase 1B of BRT is around June 2012 and is expected to clash with some existing Metrobus routes. A total number of 32 buses could be withdrawn from service due to the implementation of Phase 1B of BRT, this could eleviate pressure on the aging bus fleet.

We further draw attention to the fact that the Board initiated a forensic investigation into certain alleged irregularities by management. The investigation commenced on 3 August 2011 and was conducted by an independent firm of investigators.The report from investigators indicated that there was no substances to allegations of irregularities by management.

The board has recommended several options and organisantional models for Metrobus in the future. The COJ mayoral commitee is expected to make a decision on the matter and the implementation will start immidiately there after. This study will be finalised during the 2011/12 financial year.

44. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	24,575	-
Fruitless and wasteful expenditure current year	1,854	24,575
	26,429	**24,575**

The amount for fruitless and wasteful expenditure relates to traffic fines. During the year management started to allocate the fines to the relevant drivers, the outstanding amount is still to be allocated to the perpatrators.

45. Irregular expenditure

Reconciliation of irregular expenditure		
Unauthorised expenditure current year	29,323,787	-

Details of irregular expenditure – current year

Month-to-month extensions	6,446,004
Non-application of preference point system	259,913
Contract amount exceeded	19,237,832
Deviations - Consultants	3,380,038
	29,323,787

2011

46. Reconciliation between budget and statement of financial performance

Net (deficit) surplus per the statement of financial performance	(5,976,155)	13,252,181

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

47. Reconciliation between budget and cash flow statement

Operating activities		
Actual amount as presented in the budget statement	53,480,197	68,762,686
Investing activities		
Actual amount as presented in the budget statement	(14,697,114)	(7,638,461)
Financing activities		
Actual amount as presented in the budget statement	(31,887,509)	(60,844,498)
Net cash generated from operating, investing and financing activities	**6,895,574**	**279,727**

48. Additional disclosure in terms of Municipal Finance Management Act

VAT

VAT payable	71,627	83,099

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

49. Utilisation of Long-term liabilities reconciliation

Long-term liabilities	122,676,963	216,323,809

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

50. Loss due to fraud

A loss was incurred due to fraud amounting to R36,829, management has submitted a claim to recover the loss.