Johannesburg Metropolitan Bus Services SOC Limited
(Registration number 2000/004704/07)
Trading as Metrobus
Annual Financial Statements
for the year ended 30 June 2012

Auditor General - Johannesburg

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 (2011:30) Size of Bus fleet: 455 (2011:497) Number of Employees: 907 (2011:898)
DIRECTORS	Vincent Zwelibanzi Mntambo (Chairman) Suzan Badanile Nyalunga Kenneth Hallet Setzin Lebohang Lawrence Maqekoane (Acting Managing Director) - Appointed 01 September 2011 Maggie Mojapelo - Appointed 25 April 2012 Welekazi Dukuza - Appointed 25 April 2012 Bongani Mbokazi - Appointed 25 April 2012 Mpho Moerane - Appointed 25 April 2012 Nomvuyiso Batyi - Appointed 25 April 2012 Herman van Laar - Resigned 31 August 2011 Jeremiah Nkeli - Resigned 30 June 2011 Comfort Bunting - Retired 25 April 2012 Hugh Sutherland - Retired 25 April 2012 Kumaran Naidoo - Resigned 20 January 2012 Maureen Manyama-Matome - Resigned 30 November 2011
CHIEF FINANCE OFFICER (CFO)	Eminos Manyawi (Acting Chief Finance Officer)
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

General Information

ATTORNEYS	Bowman Gilfillan, Fluxman Attorneys and Edward Nathan Sonnenbergs
LEVEL OF ASSURANCE	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
PREPARER	The annual financial statements were internally compiled by: Mr E Manyawi (Acting Chief Financial Officer)
PUBLISHED	30 November 2012
VALUE ADDED TAX NUMBER	4750224570

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

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 2013 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 shareholder is considering future options for Metrobus as an entity. The options entails a review of the company's shareholding and capitalisation consultations are ongoing.

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 5.

The annual financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were tabled for discussion at the Audit Committee meeting held on 21 August and 07 November and were approved by the board of directors on 21 November 2012 and were signed on its behalf by:

Director **Mr. Lawrence Maqekoane**	**Director** **Mr. Vincent Mntambo**

Directors' Report

The directors submit their report for the year ended 30 June 2012.

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.

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 45,210,495 (2011: adjusted deficit R 12,629,565) for the year under review. This is mainly attributabled to increased cost and consumption of diesel, cost of repairs to fleet, increased cost of electricity and insurances, increase in the leave pay provision and fare revenue collection and contracts revenue below targets.

3. GOING CONCERN

We draw attention to the fact that at 30 June 2012, the entity had accumulated deficits of R (106,314,972) , (2011: R (61,104,477) and that the entity's total assets exceed its liabilities by R 6,038,302 (2011: R 31,249,308).

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

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

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

The City of Johannesburg Metropolitan Municipality has provided an operating subsidy of R306 million (2012: R294million) for the forthcoming 2012/2013 financial year to cover operating expenditure incurred.

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.

In 2010/2011 a proposal was made to consider future options for Metrobus. The options entailed a review of the company's shareholding and capitalisation models. Consultations are ongoing.

5. SHARE CAPITAL

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

Directors' Report

6. 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).

7. NON-CURRENT ASSETS

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

8. DIVIDENDS

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

9. 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

10. 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

11. 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.

Directors' Report

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.

Human Resources and Remuneration Committee

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 Human Resources and Remuneration Committee are Mr Kenneth Setzin (Chairman) and Ms Badanile Nyalunga. The Committee met on seven 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.

Executive meetings

The Board and various committees have met on 34 separate occasions during the financial year.

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 and Risk Committee meeting	HR and REM Committee Meeting	Chairperson's Meetings	Chairperson's Quarterly Meeting	AGM and Other	
Total number of meetings held	8	5	7	4	5	5	-
V.Z Mntambo (Chairman)	7		1	4	4	2	
K.H Setzin	7		6	2	1	1	
C Bunting	6	4				1	
H Sutherland	5				1		
S.B Nyalunga	7		7			1	
M Mojapelo	1						
W Dukuza	1						
Kumaran Naidoo	3	4					
N Bhatyi	1						
M Moerane	1						
Herman Johan van Laar	2	1	1				
B Mbokazi						1	
Maureen Manyama-Matome	3	2					
Rene Kenosi		4				2	
Kwanele Moyo		5				2	
L Maqekoane	8	4	6	4	5	3	

Audit and risk committee

The committee met 5 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.

Directors' Report

Internal audit

The entity has co-sourced its internal audit function to Nexia SAB&T effective 1 February 2012 after Gobodo Forensic and Investigative Accounting's contract had ended during the year under review. This is in compliance with the Municipal Finance Management Act, 2003. The entity has also outsourced an Internal Audit Manager, whose services were available throughout the year.

12. CONTROLLING ENTITY

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

13. 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.

14. 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 2012, 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
31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
ASSETS			
Current Assets			
Inventories	3	20,214,561	18,674,047
Receivables from exchange transactions	5	3,293,492	8,752,902
Prepayments	7	3,744,557	2,850,921
Insurance Fund	12	323,593	6,353,778
Cash and cash equivalents	8	417,390	6,852,824
		27,993,593	**43,484,472**
Non-Current Assets			
Property, plant and equipment	9	211,769,078	220,268,605
Intangible assets	10	6,151,893	7,537,356
Loans to shareholders	4	31,598,534	30,879,493
		249,519,505	**258,685,454**
Non-current assets held for sale and assets of disposal groups	13	-	3,232,706
Total Assets		**277,513,098**	**305,402,632**
LIABILITIES			
Current Liabilities			
Loans from shareholders	4	117,797,882	49,504,023
Other financial liabilities	14	16,485,290	43,812,568
Finance lease obligation	15	385,611	255,151
Payables from exchange transactions	16	31,000,174	53,960,012
VAT payable	17	86,715	71,627
Deferred income	18	4,366,415	3,227,872
Provisions	19	6,230,763	6,323,985
		176,352,850	**157,155,238**
Non-Current Liabilities			
Other financial liabilities	14	62,379,110	78,864,395
Finance lease obligation	15	287,836	329,555
Retirement benefit obligation	6	32,455,000	37,779,000
Provisions	19	-	25,136
		95,121,946	**116,998,086**
Total Liabilities		**271,474,796**	**274,153,324**
Net Assets		**6,038,302**	**31,249,308**
NET ASSETS			
Share capital	20	54,774,330	54,774,330
Reserves			
Revaluation reserve	21	57,578,944	37,579,455
Accumulated deficit		(106,314,972)	(61,104,477)
Total Net Assets		**6,038,302**	**31,249,308**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Rendering of services	22	108,106,452	90,703,855
Miscellaneous other revenue	22	6,643,477	11,077,429
Administration and management fees received	23	293,919,000	291,841,000
Actuarial Gain	23	7,355,000	219,000
Other income	23	5,142,975	2,552,446
Interest received	26	183,890	272,471
Total Revenue		**421,350,794**	**396,666,201**
Expenditure			
Personnel	25	(203,197,227)	(188,565,790)
Depreciation and amortisation		(35,029,573)	(49,461,445)
Reversal of impairments/ (Impairment loss)		(4,491,771)	99,940
Finance costs	27	(15,640,939)	(20,438,923)
Bad debts		(1,843,136)	353,726
Repairs and maintenance		(66,921,397)	(43,589,785)
Loss on disposal of assets		(3,827,428)	(2,044,159)
General Expenses	42	(49,836,210)	(45,421,153)
Diesel	42	(77,527,852)	(54,166,925)
Insurance Expense	42	(8,245,756)	(6,061,252)
Total Expenditure		**(466,561,289)**	**(409,295,766)**
Deficit for the year		**(45,210,495)**	**(12,629,565)**

Statement of Changes in Net Assets

Figures in Rand	Note(s)	Contribution from owners	Equity Loan	Total share capital	Revaluation reserve	Accumulated defecit	Net Assets
Opening balance as previously reported		13,726,387	41,047,943	54,774,330	22,474,886	(48,025,481)	29,223,735
Adjustments							
Prior year adjustments	34	-	-	-	10,066,729	(449,431)	9,617,298
Balance at 01 July 2010 as restated		**13,726,387**	**41,047,943**	**54,774,330**	**32,541,615**	**(48,474,912)**	**38,841,033**
Changes in net assets							
Deficit for the year		-	-	-	-	(12,629,565)	(12,629,565)
Revaluation for the year		-	-	-	5,037,840	-	5,037,840
Total changes		-	-	-	5,037,840	(12,629,565)	(7,591,725)
Opening balance as previously reported		13,726,387	41,047,943	54,774,330	37,579,455	(67,758,008)	24,595,777
Adjustments							
Prior year adjustments	34	-	-	-	-	6,653,531	6,653,531
Balance at 01 July 2011 as restated		**13,726,387**	**41,047,943**	**54,774,330**	**37,579,455**	**(61,104,477)**	**31,249,308**
Changes in net assets							
Deficit for the year		-	-	-	-	(45,210,495)	(45,210,495)
Revaluation for the year		-	-	-	19,999,489	-	19,999,489
Total changes		-	-	-	19,999,489	(45,210,495)	(25,211,006)
Balance at 30 June 2012		**13,726,387**	**41,047,943**	**54,774,330**	**57,578,944**	**(106,314,972)**	**6,038,302**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Grants		293,919,000	291,841,000
Interest income		183,890	272,471
Receipts from related party		1,441,845	5,486,143
Other receipts		113,148,414	111,546,950
Other cash item		10,552,393	2,473,744
		419,245,542	411,620,308
Payments			
Employee costs		(211,950,968)	(193,840,793)
Suppliers		(153,846,163)	(99,421,937)
Finance costs		(15,640,939)	(20,438,923)
Other payments		(68,008,814)	(44,197,975)
		(449,446,884)	(357,899,628)
Net cash flows from operating activities	28	**(30,201,342)**	**53,720,680**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(6,458,422)	(11,592,237)
Proceeds from sale of property, plant and equipment	9	893,310	-
Purchase of other intangible assets	10	(341,472)	(1,321,032)
Increase in Insurance Fund		-	(2,024,330)
Reduction in Insurance Fund		5,821,497	-
Net cash flows from investing activities		**(85,087)**	**(14,937,599)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other financial liabilities		(43,812,563)	(93,646,846)
Receipt of shareholders loan		67,574,818	61,703,383
Finance lease payments		88,741	55,954
Net cash flows from financing activities		**23,850,996**	**(31,887,509)**
Net increase/(decrease) in cash and cash equivalents		**(6,435,433)**	**6,895,572**
Cash and cash equivalents at the beginning of the year		6,852,824	(42,748)
Cash and cash equivalents at the end of the year	8	**417,391**	**6,852,824**

Accounting Policies

1. Presentation of Annual Financial Statements

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

GRAP10: Financial Reporting in Hyperinflationary Economies

GRAP 11: Construction Contracts

GRAP12: Inventories.

GRAP13: Leases.

GRAP14: Events after the reporting date.

GRAP 16: Investment Property

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 the previous period.

Accounting Policies

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.

Allowance for slow moving, damaged and obsolete stock

An allowance is made to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus 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. Management judgement is required to assess future work performance scores in order to determine what the possible bonus payments in future periods will be. Management uses historical information for this assessment. Additional disclosure of these estimates of provisions are included in note 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.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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.

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.

Accounting Policies

1.2 Property, plant and equipment (continued)

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.

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.

Accounting Policies

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:

i) it is disposed;

ii) 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.

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.

Accounting Policies

1.4 Financial instruments (continued)

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

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.

Accounting Policies

1.4 Financial instruments (continued)

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

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

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment'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 investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the entity has the positive intention and ability to hold to maturity are classified as held to maturity.

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:

Accounting Policies

1.4 Financial instruments (continued)

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

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.

Accounting Policies

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.

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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.

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

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

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

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

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

Accounting Policies

1.6 Inventories (continued)

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

1.7 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.

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

Accounting Policies

1.9 Employee benefits (continued)

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

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

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

Actuarial gains and losses are recognised in full in the period in which they arise as income or expenditure for all defined benefit plans.

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.

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.

Accounting Policies

1.11 Revenue from exchange transactions (continued)

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.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA 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):

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.

Accounting Policies

1.17 Irregular expenditure (continued)

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 Presentation of currency

These annual financial statements are presented in South African Rands.

1.19 Offsetting

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

1.20 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised 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.

1.21 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.

1.22 Budget information

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

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

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

1.23 Related parties

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

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

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

Accounting Policies

1.23 Related parties (continued)

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

Johannesburg Metropolitan Bus Services SOC Limited is an entity of the City of Johannesburg Metropolitan Municipality incorporated in South Africa. Refer to note 37 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 consists mainly of licenses for Vehicles and Buses and Software licenses which are payable on an annual basis. The costs are being released to the Statement of Financial Performance over a period relating to the prepayment.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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.

The following standards of GRAP were in issue but not yet effective or adopted during the period under review:

GRAP 18 - Segment reporting
GRAP 20 - Related party disclosure
GRAP 21 - Impairment of non-cash generating assets
GRAP 23 - Revenue from non-exchange transactions (Taxes and transfers)
GRAP 24 - Presentation of budget information in financial statements
GRAP 25 - Employee benefits
GRAP 26 - Impairment of cash-generating assets
GRAP 103 - Heritage assets
GRAP 104 - Financial Instruments
GRAP 105 - Transfer of functions between entities under common control
GRAP 106 - Transfer of functions between entities not under common control
GRAP 107 - Mergers

The effect as a result of the adoption of the above GRAP standards will have not material impact on the financial statements.

3. Inventories

Consumable stores	196,691	351,919
Spare parts	22,938,734	18,839,722
Tag stock	1,307,128	1,517,721
Uniform Stock	80,415	108,882
Fuel (Diesel, Petrol)	1,527,514	1,396,611
Less: Provision for obsolescence	(5,835,921)	(3,540,808)
	20,214,561	**18,674,047**

Provision for obsolescence stock is made up of:

1) Spare parts that could not be disposed of, carried forward from last year (R3,7 million)
2) Slow moving stock of R2,1 million that might in future periods not realise its value.

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.	31,598,534	30,879,493
City of Johannesburg Metropolitan Municipality - Sweeping account Terms and conditions: A loan paying interest at Prime less 4.5% with no repayment conditions. The movement is due to loan repayments that fell due during the year, as well as the losses incurred.	(117,797,882)	(49,504,023)
	(86,199,348)	**(18,624,530)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Loans to/(from) shareholders (continued)

Non-current assets	31,598,534	30,879,493
Current liabilities	(117,797,882)	(49,504,023)
	(86,199,348)	**(18,624,530)**

Credit quality of loans to shareholders

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

Credit rating		
A	32,219,638	32,527,962

Fair value of loans to and from shareholders

Loans from shareholders	32,219,638	32,527,962

Sweeping account

Loans at beginning of the year	(49,504,023)	13,249,360
Receipts	365,505,979	(1,186,223)
Repayments	(433,799,926)	(61,567,160)
	(117,797,970)	**(49,504,023)**

5. Receivables from exchange transactions

Trade debtors	2,961,517	1,314,241
Staff debtors	269,878	361,013
Other deposits	20,702	20,702
Less: Provision for impairment	(2,661,898)	(818,762)
Sundry debtor	2,682,399	5,620,874
Insurance debtor	20,894	50,739
Nedbank Debtor	-	297,702
Related party debtors	-	1,906,393
	3,293,492	**8,752,902**

Trade debtors

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 363,522- (2011: R 1,413,665) were past due but not impaired.

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

1 month past due	336,338	425,177
2 months past due	2,649	703,615
3 months past due	24,535	284,873

Trade and other receivables impaired

As of 30 June 2012, trade and other receivables of R 2,279,195 (2011: R 600,174) were impaired and provided for.

The ageing of these amounts are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Receivables from exchange transactions (continued)

	2012	2011
1 to 6 months	1,901,695	216,554
Over 6 months	377,500	383,620

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

Reconciliation of provision for impairment of trade and other receivables

	2012	2011
Opening balance	818,762	986,151
Provision for impairment	1,843,136	-
Unused amounts reversed	-	(167,389)
	2,661,898	**818,762**

	Government Entities	Business	Other debtors		Total
1 - 30 days	40,560	801,963	100,290	-	942,813
31-60 days	-	960,338	-	-	960,338
61-90 days	-	626,649	-	-	626,649
91-180 days	-	24,535	-	-	24,535
181-360 days	18,850	11,115	-	-	29,965
+361 days	331,946	25,388	19,880	-	377,214
	391,356	**2,449,988**	**120,170**	**-**	**2,961,514**

6. Employee benefit obligations

6.1Defined benefit plan

Post-retirement liability

	2012	2011
Post-Retirement Medical Aid Plan	(18,547,000)	(17,879,000)
Post-Retirement Housing Subsidy Plan	(208,000)	(270,000)
Retirement Gratuity Plan	(13,700,000)	(19,630,000)
	(32,455,000)	**(37,779,000)**

6.1.1Post retirement medical aid plan

Movements for the year

	2012	2011
Opening balance	17,879,000	19,024,000
Benefits paid	(494,000)	(446,000)
Net expense recognised in the statement of financial performance	1,162,000	(699,000)
	18,547,000	**17,879,000**

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	85,000	139,000
Interest cost	1,536,000	1,720,000
Actuarial (gains) losses	(459,000)	(2,558,000)
	1,162,000	**(699,000)**

6. Employee benefit obligations (continued)

Notional loan account

	2012	2011
Opening balance	19,204,000	18,187,000
Interest received	1,022,000	1,017,000
Balance at end of year	**20,226,000**	**19,204,000**

Key assumptions used

The principal actuarial assumptions used were as follows on 30 June 2012.

	2012	2011
Discount rates used	8.60 %	8.60 %
Expected rate of return on assets	8.60 %	9.00 %
Expected increase in salaries	6.70 %	5.60 %

Other assumptions:

Age of spouse - Husbands 5 Years older than wives.

Mortality of in-service members - In accordance with the SA 85-90 (Light) ultimate table (not rated down for females in current year).

Mortality of pensioners - In accordance with the PA(90) ultimate male and female tables (rated down 2 years for females and males)

6.1.2Post retirement housing subsidy plan

Movements for the year

	2012	2011
Opening balance	270,000	366,000
Benefits paid	(66,000)	(93,000)
Net expense recognised in the statement of financial performance	4,000	(3,000)
	208,000	**270,000**

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	10,000	14,000
Interest cost	23,000	33,000
Actuarial (gains) losses	(29,000)	(50,000)
	4,000	**(3,000)**

Key assumptions used

Assumptions used on last valuation on 30 June 2012.

	2012	2011
Discount rates used	8.60 %	8.60 %
Expected rate of return on assets	8.60 %	9.00 %

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Employee benefit obligations (continued)

6.1.3Post retirement gratuity plan

Amounts recognised in the Statement of financial position

Movements for the year

Opening balance	19,630,000	16,455,000
Benefits paid	(749,000)	(701,000)
Net expense recognised in the statement of financial performance	(5,181,000)	3,876,000
	13,700,000	**19,630,000**

Net expense recognised in the statement of financial performance

Interest cost	1,686,000	1,487,000
Actuarial (gains) losses	(6,867,000)	2,389,000
	(5,181,000)	**3,876,000**

Notional loan account

Opening balance	11,675,000	11,642,000
Interest received	625,000	646,000
Benefits payments	(922,000)	(613,000)
Balance at end of year	**11,378,000**	**11,675,000**

Key assumptions used

Assumptions used on last valuation on 30 June 2012.

Discount rates used	8.60 %	8.60 %
Expected rate of return on assets	8.60 %	9.00 %
Expected increase in salaries	6.70 %	5.60 %

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(32,455,000)	(37,779,000)

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

Opening balance	37,779,000	35,844,000
Benefits paid	(1,309,000)	(1,240,000)
Net expense recognised in the statement of financial performance	(4,015,000)	3,175,000
Closing balance	**32,455,000**	**37,779,000**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	95,000	153,000
Past service cost	-	8,000
Interest cost	3,245,000	3,233,000
Actuarial (gains) losses	(7,355,000)	(219,000)
Total included in employee related costs	**(4,015,000)**	**3,175,000**

7. Prepayments

Prepayments	3,744,557	2,850,921

Prepayments consists mainly of Vehicles and Bus Licenses (2012:R2,894,777 ; 2011:R2,595,152) and Software Licenses fees (2012:R738,783 ; 2011:R255,779) 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	67,100	99,808
Bank balances	350,290	6,753,016
	417,390	**6,852,824**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2012			2011		
	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	15,172,610	-	15,172,610
Buildings	40,258,710	(8,518,487)	31,740,223	39,863,443	(6,186,046)	33,677,397
Plant and machinery	4,404,396	(2,652,063)	1,752,333	4,019,053	(2,465,736)	1,553,317
Furniture and fixtures	3,117,902	(2,183,947)	933,955	2,750,383	(2,009,449)	740,934
Motor vehicles	3,239,773	(1,568,083)	1,671,690	3,413,450	(1,570,335)	1,843,115
Office equipment	4,058,070	(2,404,250)	1,653,820	3,771,342	(1,720,645)	2,050,697
IT equipment	3,976,849	(2,737,409)	1,239,440	5,745,969	(4,275,663)	1,470,306
Other property, plant and equipment	4,814,981	(4,379,275)	435,706	4,814,981	(4,150,694)	664,287
Fare collection equipment	12,265,980	(11,450,384)	815,596	12,355,052	(11,199,781)	1,155,271
Specialised vehicles	183,802,229	(28,549,374)	155,252,855	186,674,692	(26,002,676)	160,672,016
Tools and loose gear	2,535,160	(1,434,310)	1,100,850	2,737,297	(1,468,642)	1,268,655
Total	**277,646,660**	**(65,877,582)**	**211,769,078**	**281,318,272**	**(61,049,667)**	**220,268,605**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	15,172,610	-	-	-	-	15,172,610
Buildings	33,677,397	395,268	-	-	(2,332,442)	31,740,223
Plant and machinery	1,553,317	-	(13,210)	575,210	(362,984)	1,752,333
Furniture and fixtures	740,934	91,024	(10,686)	335,400	(222,717)	933,955
Motor vehicles	1,843,115	51,474	(77,689)	70,678	(215,888)	1,671,690
Office equipment	2,050,697	284,982	-	1,745	(683,604)	1,653,820
IT equipment	1,470,306	251,252	(163,103)	124,087	(443,102)	1,239,440
Other property, plant and equipment	664,287	-	-	-	(228,581)	435,706
Fare collection equipment	1,155,271	-	-	27,465	(367,140)	815,596
Specialised vehicles	160,672,016	5,565,482	(1,278,999)	18,754,314	(28,459,958)	155,252,855
Tools and loose gear	1,268,655	103,976	(20,675)	110,590	(361,696)	1,100,850
	220,268,605	**6,743,458**	**(1,564,362)**	**19,999,489**	**(33,678,112)**	**211,769,078**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Revaluations	Depreciation	Total
Land	16,800,000	-	-	-	-	(1,627,390)	-	15,172,610
Buildings	28,015,542	243,775	-	-	-	6,665,230	(1,247,150)	33,677,397
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	-	-	-	-	(305,409)	2,050,697
IT equipment	1,768,609	435,793	(499)	-	-	-	(733,597)	1,470,306
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	198,060,001	10,347,372	(1,308,178)	(3,232,705)	-	-	(43,194,474)	160,672,016
Tools and loose gear	1,214,388	343,452	-	-	6,983	-	(296,168)	1,268,655
	256,961,060	**11,592,237**	**(2,044,152)**	**(3,232,705)**	**-**	**5,037,840**	**(48,045,675)**	**220,268,605**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Property, plant and equipment (continued)

Pledged as security

	2012	2011
2006 Mercedes Benz Buses	56,695,475	70,553,936
Used to secure borrowings granted by the City of Johannesburg Metropolitan Municipality		
2002 Volvo Buses	-	78,236,422
Used to secure borrowings granted by INCA. Loan repaid during 2012.		

Revaluations

Land and buildings are re-valued independently every 2 years. The revaluations took place in the prior year.

All specialised vehicles were revalued during the current financial year.
The valuation was performed by an independent valuer appointed by Metrobus. The values were determined with reference to the vehicles active market prices taking into account kilometers travelled and other factors.
The revaluation resulted in an increase in the revaluation reserve of R19,999,489.

10. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	7,503,360	(1,351,467)	6,151,893	17,881,049	(10,343,693)	7,537,356

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	7,537,356	341,472	(1,351,478)	(375,457)	6,151,893

Reconciliation of intangible assets - 2011

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

11. Deferred tax

Deffered tax asset / (liability)

	2012	2011
Increase/(Decrease) in tax losses available for set off against future taxable income	6,401,683	9,535,828
Originating temporary difference on tangible fixed assets	(475,730)	(6,666,689)
Income received in advance (Deffered Income)	(4,366,415)	(3,227,871)
Other movements	(7,790,301)	(6,015,520)
Provisions	6,230,763	6,374,252
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Insurance fund

Movement for the year		
Opening balance	6,353,778	4,329,446
Contributions to the fund	-	5,057,604
Claims against the fund	(6,030,185)	(3,033,272)
	323,593	**6,353,778**

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

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

13. Assets classified as held for sale

In the year ended 30 June 2011 41 buses and their related gearboxes and engins were clasified as held for sale by management to as a plan had been developed to dispose of these buses.
The buses were disposed of during the 2012 financial year at a loss of R2.2m, which amount is included in loss on disposal of assets on the face of the statement of financial performance.

14. Other financial liabilities

Liabilities		
Structured loans City of Johannesburg Metropolitan Municipality 2007 Capex Loan. The loan carries interest at 9% per annum and is repayable in fixed quarterly installments until 30 June 2017.	54,198,819	69,259,517
Non Annuity Loans City of Johannesburg Metropolitan Municipality 2008 Capex Loan. The loan carries interest at 10.9% per annum and is repayable in fixed quarterly installments until 30 June 2018.	8,180,291	9,604,878
Non-current liabilities	**62,379,110**	**78,864,395**
Current portion of long term liabilities		
Structured loans	16,485,290	15,042,245
Infrastructure Finance Corporation Limited (INCA)	-	28,770,323
Current liabilities	**16,485,290**	**43,812,568**
Non-current liabilities		
At amortised cost	62,379,110	78,864,395
Current liabilities		
At amortised cost	16,485,290	43,812,568
	78,864,400	**122,676,963**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Finance lease obligation

Minimum lease payments due		
- within one year	320,961	360,449
- in second to fifth year inclusive	403,097	266,305
	724,058	626,754
less: future finance charges	(50,611)	(42,048)
Present value of minimum lease payments	**673,447**	**584,706**

Present value of minimum lease payments due		
- within one year	385,611	255,151
- in second to fifth year inclusive	287,836	329,555
	673,447	**584,706**

Non-current liabilities	287,836	329,555
Current liabilities	385,611	255,151
	673,447	**584,706**

It isthe entity policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 5% (2011: 5%).

All leases have fixed repayments.

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

16. Payables from exchange transactions

Trade payables and Accruals	13,987,668	27,232,352
Other payables	-	1,413,721
Accrued leave pay	16,784,247	16,523,239
Sundry Creditors	-	8,790,700
Related party creditor	228,259	-
	31,000,174	**53,960,012**

17. VAT payable

Tax payables	86,715	71,627

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

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	3,227,872	533,852
Additions during the year	1,138,543	2,694,020
	4,366,415	**3,227,872**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Provision for incentive bonus and 13th cheques	6,349,121	9,392,637	(9,510,995)	6,230,763

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

	2012	2011
Non-current liabilities	-	25,136
Current liabilities	6,230,763	6,323,985
	6,230,763	**6,349,121**

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 2012, as the annual service bonuses are paid to employees during November.

20. Share capital

	2012	2011
Authorised		
1 000 Ordinary shares of R1 each	1,000	1,000

	2012	2011
Reconciliation of number of shares issued:		
Reported as at 01 July 2011	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.

	2012	2011
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

Assets 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.

	2012	2011
Opening balance	37,579,455	32,541,615
Change during the year	19,999,489	5,037,840
	57,578,944	**37,579,455**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Revenue

Rendering of services	108,106,452	90,703,855
Miscellaneous other revenue	6,643,477	11,077,429
	114,749,929	**101,781,284**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	108,106,452	90,703,855
Miscellaneous other revenue	6,643,477	11,077,429
	114,749,929	**101,781,284**

23. Other revenue/income

Administration and management fees received - related party	293,919,000	291,841,000
Actuarial gains	7,355,000	219,000
Sundry revenue	5,142,975	2,552,446
	306,416,975	**294,612,446**

24. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

Operating lease charges		
Premises		
Contractual amounts	389,251	344,266
Equipment		
Contractual amounts	3,506,701	1,861,140
	3,895,952	**2,205,406**

Loss on sale of property, plant and equipment	3,827,428	2,044,159
Impairment on intangible assets	375,457	-
Impairment on trade and other receivables	1,968,757	-
Amortisation on intangible assets	1,351,466	1,415,769
Depreciation on property, plant and equipment	33,678,107	48,045,676
Employee costs	203,197,227	188,565,790

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

25. Employee related costs

Employee related costs : Salaries and wages		145,182,686	131,033,619
Housing benefits and allowances		1,517,240	1,753,780
Overtime payments		16,669,711	15,732,906
Bonus		10,379,528	10,360,360
Travel, motor car, accommodation, subsistence and other allowances		2,160,917	2,502,812
Less: Employee costs included in other expenses		-	(223,195)
Other payroll levies		6,768,907	6,293,518
Post-employment benefits - Pension - Defined contribution plan	6	19,801,807	20,364,468
Long-service awards		-	9,000
Board members fees and retainers		716,431	738,522
		203,197,227	**188,565,790**

Remuneration of chief finance officer (Acting Managing Director since 1st September 2011)

Annual Remuneration	882,921	856,272
Car Allowance	12,000	7,800
Performance Bonuses	101,430	-
Contributions to UIF, Medical and Pension Funds	65,071	35,928
Other	89,460	-
	1,150,882	**900,000**

Corporate and human resources (corporate services)

Annual Remuneration	645,142	601,423
Car Allowance	84,500	14,014
Performance Bonuses	-	66,419
Contributions to UIF, Medical and Pension Funds	104,921	46,435
Other	8,112	-
	842,675	**728,291**

Ex Managing Director

Annual Remuneration	158,657	1,207,783
Car Allowance	54,000	152,273
Performance Bonuses	-	129,943
Contributions to UIF, Medical and Pension Funds	5,264	40,582
Other	128,305	-
	346,226	**1,530,581**

GM: Technical

Annual Remuneration	39,206	726,227
Car Allowance	1,760	8,642
Performance Bonuses	76,705	79,218
Contributions to UIF, Medical and Pension Funds	1,304	1,497
Other	46,260	-
	165,235	**815,584**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Employee related costs (continued)

Remuneration: Acting Chief Finance Officer

Annual Remuneration	358,800	-
Car Allowance	26,566	-
Contributions to UIF, Medical and Pension Funds	32,400	-
	417,766	**-**

Remuneration: Company Secretary

Annual Remuneration	556,907	520,000
Car Allowance	84,000	7,800
Performance Bonuses	57,192	-
Contributions to UIF, Medical and Pension Funds	8,454	1,497
Other	14,331	-
	720,884	**529,297**

Ex Chief Financial Officer

Annual Remuneration	-	180,936
Performance Bonuses	-	97,724
	-	**278,660**

Ex Company Secretary

Annual Remuneration	-	13,134
Car Allowance	-	587
	-	**13,721**

GM: Operations

Annual Remuneration	823,196	604,024
Car Allowance	41,088	-
Performance Bonuses	99,057	-
Contributions to UIF, Medical and Pension Funds	81,806	54,922
Other	9,908	-
	1,055,055	**658,946**

26. Investment revenue

Interest revenue

Interest earned - Advertising	183,890	272,471

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

27. Finance costs

Non-current borrowings	15,640,939	20,438,923

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

28. Cash (used in) generated from operations

	2012	2011
Deficit	(45,210,495)	(12,629,565)
Adjustments for:		
Depreciation and amortisation	35,029,573	49,461,445
Gain (loss) on sale of assets and liabilities	3,827,428	(573,202)
Impairment loss (reversal)	4,491,771	(99,940)
Debt impairment	1,843,136	(353,726)
Movements in retirement benefit assets and liabilities	(5,324,000)	6,954,000
Movements in provisions	(118,358)	(33,844)
Changes in working capital:		
Inventories	(3,688,071)	(7,317,964)
Receivables from exchange transactions	3,490,653	7,290,793
Consumer debtors	(1,843,136)	353,726
Prepayments	(893,636)	2,850,920
Payables from exchange transactions	(22,959,838)	10,523,529
VAT	15,088	(11,472)
Deferred income	1,138,543	(2,694,020)
	(30,201,342)	**53,720,680**

29. Commitments

Commitments in respect of capital expenditure:

	2012	2011
Authorised and not yet contracted for		
Property, plant and equipment	6,500,000	6,000,000
This expenditure will be financed from:		
Internal cash	6,500,000	6,000,000

Operating leases – as lessee (Buildings)

	2012	2011
Minimum lease payments due		
Premises - Contractual amounts	391,364	355,184

30. Contingencies

Ex employees

There are several labour disputes that exist between Metrobus and ex-employees. Should the disputes be settled in favour of the former employees, management estimates Metrobus could incur or be liable for claims of backpay up to R657,000. At this moment the disputes are still uncertain.

Supplier claims

Metrobus has been notified of a claim by a service provider relating to computer expenses over a number of years. Should this claim be settled in favour of the service provider, Metrobus will be liable for claims up to R900,000. An official invoice for this claim has not been received.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

31. Related parties

Relationships	
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (Soc) Ltd
	City of Johannesburg Property Company (Soc) Ltd
	City 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 (Soc) Ltd
	Johannesburg Social Housing Company (Soc) Ltd

Related party balances

	2012	2011
Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	153,881	1,077,803
Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	476,592	642,333
Loans from shareholders		
City of Johannesburg Metropolitan Municipality	165,063,748	112,531,170

Related party transactions

	2012	2011
Subsidy from related parties		
City of Johannesburg Metropolitan Municipality (Subsidy)	293,919,000	291,841,000
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	6,413,590	23,407
Johannesburg Social Housing Company (Soc) Ltd	534,513	508,156
Pikitup Johannesburg (Soc) Ltd	-	423,584
City Power Johannesburg (Soc) Ltd	-	746,442
	6,948,103	**1,701,589**
Other receipts from related parties		
City of Johannesburg Metropolitan Municipality	625,000	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Directors' emoluments

No emoluments were paid to the executive directors or any individuals holding a prescribed office during the year. Refer note 27 for remuneration.

Non-executive

2012

	Directors' fees	Total
Jeremiah Nkeli	19,840	19,840
Vincent Zwelibanzi Mntambo (Chairman)	188,675	188,675
Comfort Bunting	42,160	42,160
Kenneth Hallet Setzin	112,096	112,096
Kumaran Naidoo	51,088	51,088
Suzan Badanile Nyalunga	88,300	88,300
Maureen Manyama-Matome	29,760	29,760
H Sutherland	54,560	54,560
R Kenosi	50,592	50,592
K Moyo	59,520	59,520
D van der Nest	19,840	19,840
	716,431	**716,431**

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
DL Roberts	4,960	4,960
R Kenosi	73,414	73,414
DP van der Nest	56,550	56,550
R Wajoodeen	34,720	34,720
K Moyo	19,840	19,840
	685,257	**685,257**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

33. Change in estimate

Property, plant and equipment

The useful life and residual values of property, plant and equipment was re-assessed at the reporting date. This resulted in an increase in useful life mainly relating to assets 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 and residual value adjustment resulted in a decrease in depreciation in the current year amounting to R3,103,579. The effect on future periods could not reasonably be determined.

Intangible assets

The useful life of intangible assets was re-assessed at the reporting date. This resulted in an increase in useful life mainly relating to assets 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 R64,538. The effect on future periods could not reasonably be determined.

34. Prior period errors

	2012	2011
Statement of financial position		
Decrease in Property, plant and equipment - Spare parts (Cost)	-	(735,475)
Increase in Property, plant and equipment - Office equipment (Cost)	-	437,812
Increase in Property, plant and equipment - Office equipment (Accumulated Depreciation)	-	(489,952)
Decrease in Property, plant and equipment - Specialised Vehicles (Cost)	-	(18,907,966)
Decrease in Property, plant and equipment - Specialised Vehicles (Accumulated Depreciation)	-	17,823,401
Decrease in assets held for sale	-	(446,311)
Increase in accrual for pension fund contributions	-	(1,651,700)
Increase in accruals	-	(1,314,516)
Increase in insurance fund asset	-	240,484
Increase in accumulated depreciation - Specialised vehicles	-	(1,377,118)
Increase in accruals	-	(232,190)
	-	**(6,653,531)**

	2012	2011
Statement of financial performance		
Increase in loss of disposal of assets	-	735,475
Increase in Depreciation - Office Equipment	-	52,320
Increase in Depreciation - Specialised Vehicles	-	1,530,696
Increase in pension fund contributions	-	1,651,700
Increase in Diesel and Repairs and Maintenance	-	1,314,516
Decrease in insurance expense	-	(240,484)
Increase in depreciation	-	1,377,118
Increase in electricity	-	232,190
	-	**6,653,531**

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

Spare Parts (R735 475)
Management discovered that the spare parts disclosed as part of property, plant and equipment, no-longer met the recognition criteria as set out in GRAP 17 and was therefore disposed in the prior period, which led to a decrease in property, plant and equipment and an increase in loss on disposals of assets.

Notes to the Annual Financial Statements

34. Prior period errors (continued)

Office equipment (R437,812 & R489,952)
All office equipment which was held under finance lease had not previously been recognised as required by GRAP 17. These assets have now correctly been recognised which led to an increase in property, plant and equipment and a increase in depreciation.

Specialised vehicles (R18,907,966 & R17,823,301 & R446 031)
All specialised vehicles had not previously been recognised as required by GRAP 17. These assets have now correctly been recognised which led to an increase in property, plant and equipment and a increase in depreciation.

Pension fund (R1,651,699)
An accrual for pension fund payouts was not raised in the prior year. This led to an increase in trade and other payables and a increase in general expenses.

Inventory Accrual (R1,314,516)
Inventory costs had not correctly been allocated to the statement of financial performance in the prior period. This led to a increase in trade payables and a increase in general expenses.

Insurance fund (R240,484)
The insurance fund expense was overstated in the prior period. The error has been corrected and led to a increase in insurance assets and a decrease in insurance expense

Depreciation (R1,377,118))
According to the company's policy on revaluation of assets, buildings have to be revalued every two years and other revaluations are done with sufficient regularity such that the carrying amount does not differ materially with the fair value determinations. The revaluation of Specialised vehicles was not done. The revaluation was subsequently done in the current financial year and a prior year error disclosed. Due to the increased value of assets depreciation has also been decreased as the useful life of the assets remained consistent. This led to a increase in depreciation and a increase in accumulated depreciation.

Electricity (R232,190)
In the prior year accruals for electricity had erroneously not been raised. This led to a increase in electricity and a increase in accruals.

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

Cash and cash equivalents (R449,431)
A cash receipt was incorrectly processed twice during the 2010 financial year. This resulted in a increase in the opening balance of accumulated defecit in the 2011 financial year.

Specialised vehicles cost (R10,066,729)
According to the company's policy on revaluation of assets, buildings have to be revalued every two years and other revaluations are done with sufficient regularity such that the carrying amount does not differ materially with the fair value determinations. The revaluation of Specialised vehicles was not done. The revaluation was subsequently done in the current financial year and a prior year error disclosed. This resulted in a increase in specialised vehicles cost and a increase in the revaluation reserve.

35. 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

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

35. Risk management (continued)

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	2012	2011
Trade and other receivables	4,576,551	8,479,374

Price risk / Market risk

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

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

36. 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.

37. 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.

38. Fruitless and wasteful expenditure

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

The amount for fruitless and wasteful expenditure relates to traffic fines encurred during the prior years.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Irregular expenditure

Reconciliation of irregular expenditure

	2012	2011
Opening balance	29,323,787	-
Irregular expenditure current year	49,350,176	29,323,787
Approved by Council or condoned	(78,673,963)	-
	-	**29,323,787**

Details of irregular expenditure – current year

	2012	2011
Month-to-month extensions The irregular expenditure relate to month-to-month extensions that were granted to existing suppliers pending tender procedures. The tender procedures have been completed in 83% of all contracts involving month to month extensions. In the 17% of cases were the tender procedures have not been completed it is due to the contractual terms only expiring in a future period.	13,770,556	6,446,004
Non-application of SCM Policy The irregular expenditure relate to proper tender procedures not being followed. The tender procedures have been completed in 100% of all contracts were proper tender procedures had previously not been followed. Furthermore the item relates to transaction worth R154,347 (2011: R0) were three quotations had not been obtained and R581,130.44 (2011:R0) were declerations of interest were not signed by suppliers.	3,236,208	259,913
Contract amount exceeded The irregular expenditure relate to contracts on which the contracted amounts have been exceeded. The expenditure is directly related to unexpected or unplanned bus breakdowns which cannot be foreseen, but which have to be fixed. The tender procedures have been completed in 100% of all contracts involving contract amounts being exceeded.	18,451,726	19,237,832
Deviations - Consultants The irregular expenditure relate to consultants for which proper tender processes had not been followed. Deviations based on urgency and emergency have been approved by the Accounting officer. The proper procurement procedures have been completed in 33% of all contracts involving consultants. Plans to complete tender procedures for the other 66% of contracts have already started and specifications are being drawn-up.	13,891,686	3,380,038
	49,350,176	**29,323,787**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

40. Reconciliation between budget and statement of financial performance

Net deficit per the statement of financial performance	(45,210,495)	-
Adjusted for:		
Over expenditure on diesel - Increased expenditure due to increased consumption and ageing bus fleet.	20,307,442	-
Over expenditure on Repairs, maintenance and depreciation - Increased expenditure due to ageing bus fleet and change in exchange rates.	4,350,599	-
Under expenditure on employee cost - Decreased expenditure due to vacant staff positions. Consultants have been used to fill these positions.	(6,040,482)	-
Under collection of fare revenue - Decrease due to decline in number of commuters and decrease in bus-hire service requests.	16,479,180	-
Over expenditure on contracted services - Increased due to contracted consultants	5,257,210	-
Over expenditure on finance charges - Increased expenditure due to increased interest paid on sweeping account.	4,586,918	-
Variances on other income	9,446,198	-
Variances on other expenditure.	(9,176,570)	-
Net surplus per approved budget	**-**	**-**

41. Additional disclosure in terms of Municipal Finance Management Act

VAT

VAT payable	86,715	71,627

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

Figures in Rand	2012	2011

The following supplimentary information (note 42) does not form part of the annual financial statements and is unaudited

42. Annexure A: General Expenses

Advertising	363,119	739,124
Assessment rates & municipal charges	43,173	74,715
Auditors Remuneration	444,576	2,345,234
Bank charges	195,907	167,662
Cleaning	3,144,097	3,251,892
Commission paid	3,739,757	3,108,903
Computer expenses	562,420	2,017,235
Consulting and professional fees	10,722,336	12,227,145
Diesel	77,527,852	54,166,925
Entertainment	622,586	350,699
Insurance	8,245,756	6,061,252
Conferences and seminars	295	181,731
Lease rentals on operating lease	3,895,952	2,205,406
Motor vehicle expenses	8,454,616	6,282,552
Placement fees	505,035	201,244
Postage and courier	8,821	5,211
Printing and stationery	869,618	346,939
Royalties and license fees	353,876	581,824
Security (Guarding of municipal property)	5,935,607	5,765,667
Staff welfare	158,085	109,382
Subscriptions and membership fees	210,783	282,732
Telephone and fax	2,029,355	1,688,363
Training	1,242,040	1,076,692
Travel - local	18,892	140,683
Electricity	4,468,972	1,428,252
Sewerage and waste disposal	328,761	596,918
Water and utilities	208,578	211,629
Uniforms	220,774	31,465
Irregular, fruitless and wasteful expenditure	-	1,854
Leave expense	1,088,179	-
	135,609,818	**105,649,330**

The year on year growth in expenditure can be explained as follows:

* Fuel is up 23,4 million due to increased fuel consumption during the year as well as price increases due to international crude oil prices, a weaker Rand as well as government levies.
* The increased motor vehicle expenses are due to an increase in motor vehicle license fees, that increased by R1.6 million to R6,7 million.
* The increased cost of electricity and insurance.