GERMISTON PHASE II HOUSING COMPANY (SOC) LTD

(REGISTRATION NUMBER 2000/007937/07)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016
Version: 05.08.2015 V1

These annual financial statements were prepared by:
D Dlamini
Chief Financial Officer
These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Published 30 June 2016

GENERAL INFORMATION

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Social Housing Institution
DIRECTORS	F Segole (Non-Executive Director) L Netshitenzhe (Non-Executive Director) K Maithufi (Non-Executive Director) A Makhado (Non-Executive Director) M Ngobeni (Non-Executive Director) T Limako (Non-Executive Director) L Vutula (Non-Executive Director) Z Nkamana (Non-Executive Director) D Dlamini (Executive Director) A Pillay (Executive Director)
REGISTERED OFFICE	No. 9 Cnr Jack & Queen Street Germiston 1400
BUSINESS ADDRESS	No. 9 Cnr Jack & Queen Street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
CONTROLLING ENTITY	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA Bank Limited
AUDITORS	Auditor General SA
SECRETARY	Adv Kgabo Sebola
COMPANY REGISTRATION NUMBER	2000/007937/07

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The reports and statements set out below comprise the annual financial statements presented to the audit committee:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
SHRA	Municipal Infrastructure Grant (Previously CMIP)
SOC	Social Housing Regulatory Authority
Pharoe Park	Pharoe Park Housing Company (SOC) Ltd
EDC	Ekurhuleni Development Company (SOC) Ltd

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

I am the chief executive and in terms of the MFMA the designated accounting officer responsible for the preparation of these annual financial statements.

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

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

The annual financial statements set out on pages 4 to 46, which have been prepared on the going concern basis, were approved by the board on 30 June 2016 and were signed on its behalf by:

L Vutula (Non-Executive Director) **Chairperson-Board of Directors**	**A Pillay (Executive Director)** **Chief Executive Officer**

Thursday, 30 June 2016

DIRECTOR'S REPORT

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

1. INCORPORATION

The entity was incorporated on April 26, 2000 and obtained its certificate to commence business on the same day.

2. REVIEW OF ACTIVITIES

MAIN BUSINESS AND OPERATIONS

The entity's main business is property development, investment and management.

The entity is engaged in social housing institution activities and operates as municipal entity under the laws of South Africa.

3. GOING CONCERN

We draw attention to note 29 in the Annual Financial Statements, Going Concern and Consolidation of Companies.

As reported in the 2015 Annual Financial Statements, the Board passed a resolution on 30 June 2015 to proceed with the amalgamation of the following related parties into a single company, namely:

• Ekurhuleni Development Company (SOC) Ltd, (“EDC”)

• Pharoe Park Housing Company (SOC) Ltd, (“Pharoe Park”)

• Germiston Phase II Housing Company (SOC) Ltd ("Germiston Phase II Housing Company") and

• Lethabong Housing Institute (SOC) NPC (“Lethabong Housing Institute”).

On 28 January 2016 the Company’s sole Shareholder, Ekurhuleni Metropolitan Municipality, by Council Resolution approved the consolidation of EDC, Pharoe Park and Germiston Phase II Housing Company.

It was however resolved not to consolidate Lethabong Housing Institute, but rather to transfer Lethabong Housing Institute's properties back to the Ekurhuleni Municipality and wind up the company.

Management has implemented the Shareholder’s Special Resolution as at 30 June 2016 and it was resolved to transfer the complete businesses (including all staff, assets and liabilities), of EDC and Pharoe Park to Germiston Phase II Housing Company as going concerns, in line with GRAP 105. The transfer was completed on 30 June 2016, the effective transfer date.

It should be noted that the key operations of the legacy entities will continue to function normally in the single entity of Germiston Phase II Housing Company.

The consolidation will prevent a duplication of functions and result in alignment with SHRA funding requirements. It will also increase the solvency of Phase II Housing Company.

DIRECTOR'S REPORT

The transfers were done at nominal values of R1-00 for each company.

The full financial effect of the consolidation is set out in note 29.

The transfer of the assets and liabilities to Germiston Phase II Housing Company resulted in an increase of the Net Asset Value of the company amounting to R18 874 032. A deferred tax asset amounting to R27 088 609 (including the deferred tax asset taken over from EDC of R358 628) also had to be raised as a result from the transfer of functions.

The registration of all assets, such as immovable property, cessation of creditors, etc. is expected to be completed within 3-6 months after the transfer date recognized in the annual financial statements. All control, rights and obligations of all the EDC and Pharoe Park business, staff, assets and liabilities were however transferred to Germiston Phase II Housing Company on 30 June 2016, of which Germiston Phase II Housing Company assumed ownership of the business, staff, assets and liabilities of EDC and Pharoe Park from that date.

The ability of the entity to continue as a going concern after the consolidation still is dependent on a number of factors. The most significant of these is that the accounting officer has the resources in place to continue in operation for the foreseeable future. The existence of the entity is dependent on the continued support of its shareholder.

During the year the shareholder assisted with grants of R16 281 500 to Phase II Housing Company (SOC) Ltd , which was mainly used for the consolidation of the companies. Additional grants have been approved for 2016/2017 amounting to R3.5 million. At 30 June 2016, the entity had an accumulated surplus of R85 281 266 and that the entity's total assets exceed its liabilities by R85 281 366.

Management therefore foresees that the entity will continue as a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement, contingent obligations and commitments will occur in the ordinary course of business.

4. SUBSEQUENT EVENTS

The directors are not aware of any material matter or circumstance arising since 30 June 2016 and the date of issue of this report which would have an effect on the report.

5. ACCOUNTING POLICIES

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

6. CONTRIBUTIONS FROM OWNERS

The entity was incorporated with an authorised share capital of 5,000 ordinary shares of R1 each of which 108 were issued at par value.

In line with the Special Resolution of the shareholder the company bought the 8 shares held by the Gauteng Partnership Fund and cancelled these shares and related share premium.

Therefore at 30 June 2016 the Ekurhuleni Metropolitan municipality held 100 % of the issued shares.

Unissued ordinary shares are under the control of Ekurhuleni Metropolitan municipality.

7. NON-CURRENT ASSETS

There was no major changes in the nature of the non-current assets of the entity, nor to its policy regarding its use during the year under review.

8.

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

Name	Nationality	Changes
F Segole (Non-Executive Director)	South African	
L Netshitenzhe (Non-Executive Director)	South African	

DIRECTOR'S REPORT

C Lehoka (Non-Executive Director)	South African	Resigned Wednesday, 04 November 2015
K Maithufi (Non-Executive Director)	South African	Appointed 01 May 2015
A Makhado (Non-Executive Director)	South African	Appointed Wednesday, 01 July 2015
M Ngobeni (Non-Executive Director)	South African	Appointed Wednesday, 01 July 2015
T Limako (Non-Executive Director)	South African	Appointed Wednesday, 01 July 2015
L Vutula (Non-Executive Director)	South African	Appointed Wednesday, 01 July 2015
Z Nkamana (Non-Executive Director)	South African	Appointed Wednesday, 01 July 2015
D Dlamini (Executive Director)	South African	
A Pillay (Executive Director)	South African	Appointed Sunday, 01 November 2015

DIRECTOR'S REPORT

9. SECRETARY

The secretary of the entity is Adv Kgabo Sebola of:

Business address

No. 9 Cnr. Jack & Queen Street
Germiston
1400

Postal address

P O Box 1245
Germiston
1400

10. 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 adopt Code of Corporate Practices and Conduct ("the Code") laid out in the King Report III on Corporate Governance for South Africa. The board discuss the responsibilities of management in this respect, at Board meetings and monitor the entity's compliance with the code on a three monthly basis.

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

BOARD OF DIRECTORS

The Board:

- ensure that the entity compliance with its mandate and responsibilities including, its plans and strategy;
- acknowledge its responsibilities as 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

- has established a Board directorship continuity programme.

CHAIRPERSON AND CHIEF EXECUTIVE

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

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

REMUNERATION

The remuneration of the Executive Directors is determined by the shareholder. The remuneration of key management and directors are disclosed in a note of the annual financial statements. The chairperson of the Remuneration Committee is Mr Z Nkamana.

BOARD MEETINGS

The board have met on 6 separate occasions during the financial year. The board schedules to meet at least 4 times per annum.

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

DIRECTOR'S REPORT

AUDIT COMMITTEE

The entity does not have its own audit committee. At present the audit committee of the Ekurhuleni Metropolitan Municipality provides an audit committee function to the entity as per council resolution. This is in compliance with section 166 (6) b of the Municipal Finance Management Act, 2003.

INTERNAL AUDIT

The internal audit department of Ekurhuleni Metropolitan Municipality provided the internal audit function to the entity. This is in compliance with the Municipal Finance Management Act, 2003.

11. CONTROLLING ENTITY

The entity's controlling entity is Ekurhuleni Metropolitan Municipality incorporated in South Africa.

12. BANKERS

ABSA Bank Limited.

13. AUDITORS

Auditor General SA of South Africa.

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 entity has lodged with the Commissioner all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Adv Kgabo Sebola
Company Secretary

Johannesburg

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories		115 175	-
Loans to economic entities	3	5 035 811	11 808 071
Current tax receivable	4	1 053 942	-
Receivables from exchange transactions	5	452 721	14 958
Consumer debtors	6	1 089 484	1 381 569
Cash and cash equivalents	7	19 027 246	23 122 384
		26 774 379	**36 326 982**
Non-Current Assets			
Investment property	8	47 858 107	22 460 985
Property, plant and equipment	9	1 157 694	-
Intangible assets	10	151 033	-
Deferred tax	11	27 088 609	-
		76 255 443	**22 460 985**
Total Assets		**103 029 822**	**58 787 967**
Liabilities			
Current Liabilities			
Finance lease obligation	36	46 581	-
Trade and other payables from exchange transactions	12	2 645 495	761 344
Provisions	13	1 741 909	286 891
Loans from economic entities		-	11 090 663
Tenants Deposits		3 441 115	1 959 199
VAT Payable		330 168	-
		8 205 268	**14 098 097**
Non-Current Liabilities			
Unspent conditional grants and receipts	14	7 248 863	10 793 533
Total Liabilities		**15 454 131**	**24 891 630**
Net Assets		**87 575 691**	**33 896 337**
Net Assets			
Contributions from owners	15	100	4 000 100
Reserves			
Accumulated Surplus - Recognised gain on transfer of functions in		19 625 880	-
Accumulated Surplus - Recognised loss on transfer of functions in		(751 848)	-
Accumulated surplus		68 701 559	29 896 237
Total Net Assets		**87 575 691**	**33 896 337**

* See Note 34

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Rental of facilities and equipment		15 522 536	14 963 897
Recoveries	16	3 497 607	2 763 334
Other income	17	77 722	190 361
Interest received	18	1 593 624	1 391 214
Government grants & subsidies		19 826 170	1 750 000
Total revenue		**40 517 659**	**21 058 806**
Expenditure			
Administration	19	(13 176 120)	(8 971 270)
Depreciation and amortisation		(590 368)	(581 413)
Finance costs	20	(46 862)	(112 138)
Debt Impairment	21	(3 107 221)	(1 715 941)
Repairs and maintenance	22	(3 307 734)	(1 891 208)
General Expenses	23	(8 204 013)	(6 881 194)
Total expenditure		**(28 432 318)**	**(20 153 164)**
Operating surplus		**12 085 341**	**905 642**
Surplus before taxation		**12 085 341**	**905 642**
Taxation	37	(26 719 981)	-
Surplus for the year		**38 805 322**	**905 642**
ATTRIBUTABLE TO:			
Owners of the controlling entity		38 805 322	881 401
Non-controlling interest		-	24 241
		38 805 322	**905 642**

* See Note 34

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Contributions from owners	Share premium	Total share capital	Accumulated Surplus - Transfer of functions in: Pharoe Park Housing Company	Accumulated Surplus - Transfer of functions in: Ekurhuleni Development Company	Total addition to Accumulated Surplus - Transfers of functions in	Accumulated surplus	Total net assets
Balance at 01 July 2014	**108**	**3 999 992**	**4 000 100**	**-**	**-**	**-**	**28 990 595**	**32 990 695**
Changes in net assets								
Surplus for the period	-	-	-	-	-	-	905 642	905 642
Total changes	-	-	-	-	-	-	905 642	905 642
Opening balance as previously reported	108	3 999 992	4 000 100	-	-	-	29 876 709	33 876 809
Adjustments								
Prior year adjustments	-	-	-	-	-	-	19 528	19 528
Restated* Balance at 01 July 2015	**108**	**3 999 992**	**4 000 100**	**-**	**-**	**-**	**29 896 237**	**33 896 337**
Changes in net assets								
Deficit for the period	-	-	-	-	-	-	38 805 322	38 805 322
GPF Shares paid	(8)	(3 999 992)	(4 000 000)	-	-	-	-	(4 000 000)
Gains (losses) from mergers or transfer of functions between entities under common control	-	-	-	19 625 880	(751 848)	18 874 032	-	18 874 032
Total changes	(8)	(3 999 992)	(4 000 000)	19 625 880	(751 848)	18 874 032	38 805 322	53 679 354
Balance at 30 June 2016	**100**	**-**	**100**	**19 625 880**	**(751 848)**	**18 874 032**	**68 701 559**	**87 575 691**
Note(s)	15	15	15					

* See Note 34

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Customers		13 114 942	13 010 703
Grants		16 281 500	1 750 000
Interest income		1 386 485	1 250 114
Other receipts		3 782 468	3 094 796
		34 565 395	19 105 613
Payments			
Suppliers		(11 233 648)	(9 704 448)
Finance costs		(46 862)	(112 138)
Other payments		(13 176 120)	(8 971 272)
		(24 456 630)	(18 787 858)
Net cash flows from operating activities	26	**10 108 765**	**317 755**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(145 279)	-
Purchase of investment property	8	(22 800)	-
Loans to economic entities repaid		(1 435 326)	2 046 068
Work in progress		(10 531 500)	-
Net cash flows from investing activities		**(12 134 905)**	**2 046 068**
Cash flows from financing activities			
Reduction of share capital	15	(4 000 000)	-
Movement in deposits charged		56 077	111 539
Net cash flows from financing activities		**(3 943 923)**	**111 539**
Net increase/(decrease) in cash and cash equivalents		**(5 970 063)**	**2 475 362**
Cash and cash equivalents at the beginning of the year		23 122 384	20 647 022
Transfer of functions in-Ekurhuleni Development Company (SOC) LTD		415 184	-
Transfer of functions in-Pharoe Park Housing Company (SOC) LTD		1 459 741	-
Cash and cash equivalents at the end of the year	7	**19 027 246**	**23 122 384**

* See Note 34

Statement of Comparison of Budget and Actuals

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June 2016											
Financial Performance											
Interest received	1 448 000	-	1 448 000	-		1 448 000	1 593 624		145 624	110 %	110 %
Transfers recognised - operational	16 781 500	-	16 781 500	-		16 781 500	19 826 170		3 044 670	118 %	118 %
Other own revenue	20 003 000	-	20 003 000	-		20 003 000	19 097 865		(905 135)	95 %	95 %
Total revenue (excluding capital transfers and contributions)	**38 232 500**	**-**	**38 232 500**	**-**		**38 232 500**	**40 517 659**		**2 285 159**	**106 %**	**106 %**
Administration	(13 176 000)	-	(13 176 000)	-	-	(13 176 000)	(13 176 120)	-	(120)	100 %	100 %
Debt impairment	(1 553 000)	-	(1 553 000)			(1 553 000)	(3 107 221)	-	(1 554 221)	200 %	200 %
Depreciation and asset impairment	(615 000)	-	(615 000)			(615 000)	(590 368)	-	24 632	96 %	96 %
Finance charges	(66 000)	-	(66 000)	-	-	(66 000)	(46 862)	-	19 138	71 %	71 %
Other expenditure	(8 119 000)	-	(8 119 000)	-	-	(8 119 000)	(11 511 751)	-	(3 392 751)	142 %	142 %
Total expenditure	**(23 529 000)**	**-**	**(23 529 000)**	**-**	**-**	**(23 529 000)**	**(28 432 322)**	**-**	**(4 903 322)**	**121 %**	**121 %**
Surplus/(Deficit)	**14 703 500**	**-**	**14 703 500**	**-**		**14 703 500**	**12 085 337**		**(2 618 163)**	**82 %**	**82 %**
Transfers recognised - capital	(14 531 500)	-	(14 531 500)	-		(14 531 500)	-		14 531 500	- %	- %
Surplus (Deficit) after capital transfers and contributions	**172 000**	**-**	**172 000**	**-**		**172 000**	**12 085 337**		**11 913 337**	**7 026 %**	**7 026 %**
Taxation	-	-	-	-		-	(26 719 981)		(26 719 981)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**172 000**	**-**	**172 000**	**-**		**172 000**	**38 805 318**		**38 633 318**	**22 561 %**	**22 561 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Comments to the Statement of Comparison of Budget and Actuals (Statement of Financial Performance)

1. Revenue

Interest recognised from trade and other receivables exceeded the budgeted amount by 10% as a result of an increase in late payments of rental income. The interest received from investments and cash exceeded the budget by 5% as more cash balances and investments were held with the bank than anticipated.

5% of other revenue, which includes rental income and recoveries was not realised due to income from certain housing units that was budgeted, but not being billed during the quarter as the units were vacant. The vacancy of units is as a result of termination of lease and evictions.

2. Debt impairment

Impairment budget has been exceeded by 62%. There has been a change in accountng policy for bad debts impairment.

3. Finace Costs

Finance cost relates to interest paid on rental deposits, this has increased more than anticipated as the number of vacating tenants increases.

4. Other expenditure

An overspending of 42% was realised in the other expenditure line item. The budget for other expenditure line item was reduced by R1,5 million in line with the reduced revenue budget of R1,5 million. The adjustment happened in the last quarter of the financial year and certain line items where already under presure such as repairs and maintenance due to unplanned emergency repairs related to plumbing works and geyser replacements.

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements:

• Trade receivables and loans and receivables
The entity assesses its trade receivables, held to maturity investments 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 surplus 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, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, 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.

• Impairment of receivables
The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. This was performed per service-identifiable categories across all debtor classes.

• Impairment of property, plant and equipment
The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

• Provisions, contingent liabilities and contingent assets
Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

• Useful lives of property, plant and equipment and Investment property held at cost
The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate.

The estimated residual values of assets is also based on management's judgement on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

• Budget information
A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.
The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

1.2 Presentation currency

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

Accounting Policies

1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

At initial recognition, the entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model
Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation is provided to write down the cost by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Accounting Policies

1.4 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.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

The depreciation rates are based on the following estimated useful lives:

Item	Average useful life
• Furniture and fittings	10 years
• Motor vehicles	5 – 11 years
• Office equipment	5 years
• IT equipment	5 – 9 years

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

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

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

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

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

1.5 Intangible assets

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.

An intangible asset is an identifiable non-monetary asset without physical substance.

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

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

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

1.5 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not capitalised as an intangible asset.

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

Item	Useful life
Computer software	5-11 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

Accounting Policies

1.6 Financial instruments

a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
(i) the entity designates at fair value at initial recognition or
(ii) are held for trading.

b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

c) Financial instruments at fair value comprise financial assets or financial liabilities that are:
(i) derivatives;
(ii) combined instruments that are designated at fair value;
(iii) instruments held for trading. A financial instrument is held for trading if:
(1) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
(2) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
(iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
(v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Loans	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Loans	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Tenants' deposits	Financial liability measured at amortised cost

Initial recognition
The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities
The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities
The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

Accounting Policies

1.6 Financial instruments (continued)

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or of financial assets is impaired.

a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured 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. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a

Accounting Policies

1.6 Financial instruments (continued)

net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

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 the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

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

1.8 Impairment of non-cash-generating assets and non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.10 Revenue from exchange transactions

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

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:
• The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised when the entity’s right to receive payment is established.

Accounting Policies

1.11 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.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers, including Grants and Receipts
The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

Gifts and donations, including goods in-kind
Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind
Services in-kind are not recognised.

1.12 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.

Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Irregular expenditure

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

1.16 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.17 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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

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 person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

1.18 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

Accounting Policies

1.19 Commitments

The entity discloses each class of capital assets (PPE, Investment properties, Intangible assets and Heritage assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

1.20 Going concern and consolidation of companies (Transfer of functions)

These annual financial statements have been prepared on a going concern basis.

Transfers of functions between entities under common control are accounted for by the acquirer by recognising assets acquired and liabilities assumed at their carrying amounts at the date of transfer.

Any difference between the assets and liabilities recognised and consideration paid, if any, is recognised in accumulated surplus or deficit. Transfers of functions between entities under common control are accounted for by the transferor by derecognising assets and liabilities at their carrying amounts at the date of transfer. Any difference between the assets and liabilities derecognised and consideration paid, if any, is recognised in accumulated surplus or deficit.

1.21 Comparative figures

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

1.22 Taxes

Current tax assets and liabilities
Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses
Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

Accounting Policies

1.23 Share Premium

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	No effective date has yet been determined by the Minister of Finance	The impact of the amendment is not material.
• GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	No effective date has yet been determined by the Minister of Finance	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.

3. Loans to/(from) economic entities

Economic entities

Ekurhuleni Development Company (SOC) Limited	-	11 808 071
Lethabong Housing Company (SOC) Limited	5 035 811	-
	5 035 811	**11 808 071**

Inter company loans are unsecured, interest free with no specific repayment terms.

All the receivable balances are recoverable in full from the related parties and no impairment provision has been raised on the outstanding balances for 2016 (2015 - R0).

4. Current tax receivable

Transfer of functions in - Tax receivable Pharoe Park Housing Company (SOC) Ltd	444 288	-
Transfer of functions in - Tax receivable Ekurhuleni Development Housing Company (SOC) Ltd	619 654	-
Securities tax payable	(10 000)	-
	1 053 942	**-**

5. Receivables from exchange transactions

Staff Debtor-Transfer of functions: EDC	82 000	-
Related party receivables-EMM	817	5 344
Other receivables	21 693	9 614
Prepaid expenses-Transfer of functions: EDC	112 307	-
Other Debtors-Transfer of functions: EDC	77 004	-
Other Debtors-Transfer of functions: Pharoe Park	158 900	-
	452 721	**14 958**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired.

Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 22 510 (2015: R 14 958) are considered not to be impaired and were not provided for.

The directors of the entity have assessed the individual and collective impairment of trade receivables and the balance is fully recoverable, therefore no impairment on trade receivables has been raised.

6. Consumer debtors

	2016	2015
Gross balances		
Housing rental	12 014 843	5 220 278
Less: Allowance for impairment		
Housing rental	(10 925 359)	(3 838 709)
Net balance		
Housing rental	1 089 484	1 381 569
Housing rental		
Current (0 -30 days) Germiston Phase II	1 020 743	829 565
31 - 60 days	452 427	461 521
61 - 90 days	585 989	304 152
91 - 120 days	670 767	215 145
121< days	4 092 599	3 409 895
Transfer of functions in: Pharoe Park	-	-
Current (0 -30 days)	500 894	-
31 - 60 days	238 242	-
61 - 90 days	209 737	-
91 - 120 days	294 423	-
121< days	3 949 022	-
	12 014 843	**5 220 278**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3 838 709)	(2 968 826)
Contributions to allowance during year	(3 107 221)	(1 714 473)
Debt impairment written off against allowance	805 346	844 590
Debtors Impairment - Transfer of functions in: Pharoe Park	(4 784 775)	-
	(10 925 359)	**(3 838 709)**

Consumer debtors collateral

Consumer debtors were enhanced in quality with tenants deposits held as collateral on amounts owing amounting to R3 441 115- (2015: R 1 959 199).

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Cash and cash equivalents (continued)

Cash on hand	1 792	-
Short-term tenant deposits	3 256 720	1 870 165
Unspent grant - Restricted cash	7 248 863	12 383 324
Bank balances	7 662 779	4 308 708
Short-term deposits - surplus cash	857 092	4 560 187
	19 027 246	**23 122 384**

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Current account - 4052348660	7 102 625	4 308 708	2 937 517	7 102 625	4 308 708	2 937 517
ABSA Call account - 4078340070	1 943 741	1 870 165	1 811 441	1 943 741	1 870 165	1 811 441
ABSA Call account - 2071747815	7 248 863	12 383 324	11 609 970	7 248 863	12 383 324	11 609 970
ABSA Call account - 2072805440	857 092	4 560 187	4 288 094	857 092	4 560 187	4 288 094
Transfer of functions in: EDC ABSA-current account-405591949	413 392	-	-	413 392	-	-
Transfer of functions in: Pharoe Park-ABSA- current account-4050383636	146 762	-	-	146 762	-	-
Transfer of functions in: Pharoe Park-ABSA call account- 70 7834 0151	1 312 979	-	-	1 312 979	-	-
Total	**19 025 454**	**23 122 384**	**20 647 022**	**19 025 454**	**23 122 384**	**20 647 022**

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. The carrying value of cash and short term deposits approximates its fair value.

Tenants deposits are seperately held in call accounts.

Notes to the Annual Financial Statements

Figures in Rand

8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	63 923 170	(16 065 063)	47 858 107	30 891 472	(8 430 487)	22 460 985

Reconciliation of investment property -30 June 2016

	Opening balance	Additions	Transfer of functions	Work in progress	Depreciation	Total
Investment property	22 460 985	22 800	15 424 235	10 531 500	(581 413)	47 858 107

Reconciliation of investment property - 30 June 2015

	Opening balance	Depreciation	Total
Investment property	23 042 398	(581 413)	22 460 985

	2 016	2 015
Fair value of investment properties - Registered in the name of Germiston Phase II Housing Company (SOC) Ltd	108 110 000	108 110 000
Fair value of investment properties (transfer of functions from Pharoe Park Housing Commpany (SOC) Ltd - In process of being registered in the name of Germiston Phase II Housing Company (SOC) Ltd	83 800 000	-

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Investment property (continued)

Details of property

The property registered in the name of Germiston Phase II Housing Company (SOC) Ltd comprises of:

Erf 59, 61 and 62 Airport Park Ext 2 Township registration division I.R. measuring 1.3394, 1.1486 and 1.5477 hectares respectively, erf 905, 906, 907 and 908 Delville Ext 3 Township measuring 4708, 4212, 4400 and 2007 square meters, as well as R/71/110-IR Germiston, and Portion 71 (remaning extent) of the farm Klippoortjie 110-IR, Germiston.

The property was developed in 2002 for the purpose of earning rental income and meeting housing service delivery needs. The property has 548 social housing rental units.

Fair value of investment property amounting to R108 110 000 was determined as at year end 30 June 2015 by a third party valuation in 2015.

Transfer of functions in from Pharoe Park Housing Company (SOC) Ltd:

On 30 June 2016 Germiston Phase II Housing Company (SOC) Ltd took control of the investment properties of Pharoe Park Housing Company in terms of the written consolidation agreement. The properties are in the process of being transferred and registered in the name of Germiston Phase II Housing Company (SOC) Ltd. The details of these properties are as follows:

Erf 122 to 128,130,132,134 to 139,263,265,267,269 to 271,287 and 305 to 308 in WEST GERMISTON.

The properties were developed in 1998 for the purpose of earning rental income and meeting housing service delivery needs. The property has 440 social housing rental units.

Fair value of investment properties amounting to R83 800 000 was determined as at year end 30 June 2015 by a third party valuation in 2015.

Work in Progress:

Work in Progress is the transfer duties tax that was paid before year end in respect of the transfer of the Pharoe Park Housing Company (SOC) Ltd properties to Germiston Phase II Housing Company (SOC) Ltd. The transfer of the properties will be completed after year end but before the next reporting date.

Details of property

Investment property at cost

	2016	2015
Terms and conditions		
- Land	1 686 000	1 686 000
- Buildings	29 070 639	29 070 639
- Work in progress	10 531 500	-
- Capitalised expenditure	157 633	134 800
	41 445 772	**30 891 439**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	490 951	(205 094)	285 857	-	-	-
Motor vehicles	250 790	(158 454)	92 336	-	-	-
Office equipment	319 123	(150 481)	168 642	-	-	-
IT equipment	516 228	(199 163)	317 065	-	-	-
Other property, plant and equipment	404 404	(110 610)	293 794	-	-	-
Total	**1 981 496**	**(823 802)**	**1 157 694**	**-**	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2016

	Opening balance	Additions	Additions through transfer of functions-EDC	Additions through transfer of functions-Pharoe Park	Depreciation	Total
Furniture and fixtures	-	-	285 857	-	-	285 857
Motor vehicles	-	-	92 336	-	-	92 336
Office equipment	-	-	110 943	57 699	-	168 642
IT equipment	-	-	317 065	-	-	317 065
Other property, plant and equipment	-	145 279	-	157 470	(8 955)	293 794
	-	**145 279**	**806 201**	**215 169**	**(8 955)**	**1 157 694**

Pledged as security

Carrying value of assets securitised under finance leases:

	2016	2015
Office equipment -Transfers of functions in: EDC	92 137	-

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	295 762	(144 729)	151 033	-	-	-

Reconciliation of intangible assets - 30 June 2016

	Opening balance	Additions through transfer of functions - EDC	Total
Computer software, other	-	151 033	151 033

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Deferred tax

Deferred tax asset

Deferred tax asset - transfer of functions in: EDC	358 628	-
Deferred tax asset recognised during the year	26 729 981	-
Total deferred tax asset	**27 088 609**	**-**

Reconciliation of deferred tax asset / (liability)

Leave Provision - Transfer of functions in: EDC	147 651	-
Performance Bonus Provision - Transfer of functions in: EDC	210 977	-
Investment Property - Buildings: Pharoe Park (Recognised on transfer date)	19 819 866	-
Investment Property - Buildings: Germiston Phase II	594 418	-
Provision for interest on deposit : Pharoe Park (Recognised on transfer date)	53 951	-
Provision for interest on deposit : Germiston Phase II	75 155	-
Assessable loss : Germiston Phase II	3 892 266	-
Provision for bad debts	2 294 325	-
	27 088 609	**-**

Recognition of deferred tax asset

The entity has a net deferred tax asset.

The utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences.

The company has raised the deferred tax asset as the probability of the company to have sufficient future taxable surplusses to utilise the deferred tax asset has been improved.

This assumption is supported by the consolidation of EDC and Pharoe Park's assets into Germiston Phase II Housing Company, which resulted in an increase of the company's solvency and sustainability. In addition to the support given by the shareholder to effect the consolidation, the shareholder also has indicated its continued support to grow the company with new building projects that have been undertaken on behalf of the entity and will be transferred to the entity upon completion.

Included in the deferred tax balance above is a material deferred tax asset, amounting to R19 819 886, that had to be raised on the properties (buildings) bought from Pharoe Park. For tax purposes, the assets are deemed to have been acquired by Germiston Phase II at the market value of R83,8 million while the book value for accounting purposes is R13 014 766.

12. Trade and other payables from exchange transactions

Trade payables	132 824	282 716
Payroll creditors-Transfer of functions: EDC	46 645	-
Accrued 13th cheque bonus: Transfer of functions EDC	163 955	-
Accrued expense-Suppliers: Transfer of functions EDC	123 518	-
Accrued Directors fees: Transfer of functions EDC	104 000	-
Other payables	1 995 479	451 282
Unallocated receipts	36 646	27 346
Unallocated receipts-Transfer of functions: Pharoe Park	42 428	-
	2 645 495	**761 344**

Trade and other payables are interest bearing and are normally settled on 30 - 90 day terms. All other payables are non-interest bearing and have an average term of three months

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Provisions

Reconciliation of provisions - 30 June 2016

	Opening Balance	Additions	Utilised during the year	Transfer of functions-Pharoe Park	Transfer of functions-EDC	Total
Leave Pay Provision	-	-	-	-	527 324	527 324
Performance Bonus Provision	-	-	-	-	753 491	753 491
Provision for interest on tenant's deposits	286 891	46 848	(65 328)	192 683	-	461 094
	286 891	**46 848**	**(65 328)**	**192 683**	**1 280 815**	**1 741 909**

Reconciliation of provisions - 30 June 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for interest on tenant's deposits	247 615	59 589	(20 313)	286 891

The provision represents management's best estimate of the entity's liability. Interest accrued on tenants' deposit from the lease date to the date of vacating the unit.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Unspent grant: NHF	7 248 863	10 793 533
Movement during the year		
Balance at the beginning of the year	10 793 533	10 793 533
Income recognition during the year	(3 544 670)	-
	7 248 863	**10 793 533**

The unspent Government grant reflected refers to the non-conclusion of the acquisition of President's Place. The National Housing Fund allocated subsidies for the purchase of President Place.

These amounts are invested in a ring-fenced investment until utilised.The Grant is earmarked to be spend on Social Housing activities within the next 24 Months.

15. Contributions from owners

	2016	2015
Authorised		
1000 Ordinary shares of par value of R1 each	1 000	1 000
Issued		
Ordinary	100	108
Share premium	-	3 999 992
	100	**4 000 100**

Gauteng Partnership Fund bought shares in Germiston Phase II Housing Company and paid a share premium of R 3 999 992 for 8 shares of the entity. During the year the shares, including share premium, were purchased by the entity and cancelled. The Ekurhuleni Metropolitan Municicpality now owns 100% of the entity's shares.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Recoveries

Legal fees	851 360	326 935
Refuse	708 299	680 585
Damage and repairs	180 194	60 238
Sewerage	526 025	508 720
Water	1 231 729	1 186 856
	3 497 607	**2 763 334**

17. Other income

Lease administration fees	13 350	128 211
Letters of demand charged	64 372	62 150
	77 722	**190 361**

18. Interest received

Bank	1 386 485	1 250 114
Interest charged on trade and other receivables	207 139	141 100
	1 593 624	**1 391 214**

The amount included in Investment revenue arising from exchange transactions amounted to R 1 386 485 (30 June 2015: R1 250 114).

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

19. Administrative expenditure

Administration and management fees - related party	13 176 120	8 971 270

20. Finance costs

Trade and other payables	14	52 551
Interest on deposits paid	46 848	59 587
	46 862	**112 138**

21. Debt impairment

Contributions to debt impairment provision	2 301 875	869 882
Bad debts written off - Consumer debtors	805 346	844 590
Bad debts written off - Other debtors	-	1 469
	3 107 221	**1 715 941**

22. Repairs and maintenance

Planned maintenance	1 638 826	694 585
General repairs	1 668 908	1 196 623
	3 307 734	**1 891 208**

23. General expenses

Assessment rates & municipal charges	405 126	381 770
Auditors remuneration	305 460	298 931
Bank charges	253 922	221 130
Cleaning	342 453	317 559
Consulting and professional fees	1 131 404	336 022
Debt collection	20 394	175 961
Insurance	303 587	124 880
Gardening	16 000	-
Pest control	13 900	42 050
Security (Guarding of municipal property)	1 151 184	991 614
Telephone and fax	1 089	1 155
Electricity	478 615	428 992
Sewerage and waste disposal	280 853	155 958
Water	2 514 667	2 497 799
Refuse	985 359	905 093
Other expenses	-	2 280
	8 204 013	**6 881 194**

24. Revenue

Rental of facilities and equipment	15 522 536	14 963 897
Recoveries	3 497 607	2 763 334
Other income	77 722	190 361
Interest received - investment	1 593 624	1 391 214
Government grants & subsidies	19 826 170	1 750 000
	40 517 659	**21 058 806**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities and equipment	15 522 536	14 963 897
Recoveries	3 497 607	2 763 334
Other income	77 722	190 361
Interest received - investment	1 593 624	1 391 214
	20 691 489	**19 308 806**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:
Taxation revenue
Transfer revenue

Government grants & subsidies	19 826 170	1 750 000

25. Auditors' remuneration

Opening balances	-	28 486
Current year fee	305 460	298 931
Amount paid- Current year	(305 460)	(327 417)
	-	-

26. Cash generated from operations

Surplus	38 805 322	905 642
Adjustments for:		
Depreciation	590 368	581 413
Debt impairment	3 107 221	1 715 941
Movements in provisions	(18 480)	39 272
Movement in deferred tax	(26 729 981)	-
Movement in tax (securities transfer duty payable)	10 000	-
Changes in working capital:		
Receivables from exchange transactions	(7 552)	(770 311)
Consumer debtors	(2 407 594)	(1 953 193)
Trade and other payables from exchange transactions	304 131	(201 009)
Unspent conditional grants and receipts	(3 544 670)	-
	10 108 765	**317 755**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

27. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling entity	Ekurhuleni Metropolitan Municipality
Other members of the group	Pharoe Park Housing Company (SOC) Limited
	Lethabong Housing Institute (SOC) NPC
	Ekurhuleni Development Company (SOC) Limited
	Brakpan Bus Company (SOC) Limited
	East Rand Water Care Company (SOC) NPC
Members of key management	Dr. M Pillay (Chief Executive Officer)
	D Dlamini (Chief Financial Officer)

Related party balances

	2016	2015
Loan accounts - Owing (to) by related parties		
Ekurhuleni Development Company (SOC) Limited	-	11 778 125
Pharoe Park Housing Company (SOC) Limited	-	(11 090 663)
Lethabong Housing Institute (SOC) NPC	5 035 811	29 946
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Ekurhuleni Metropolitan Municipality	817	5 345

Related party transactions

	2016	2015
Services provided by related parties		
Ekurhuleni Metropolitan Municipality	4 664 620	4 369 612
Ekurhuleni Metropolitan Municipality-interest	-	52 535
Administration fees paid to related parties		
Ekurhuleni Development Company (SOC) Limited	13 176 120	8 971 270
Grants paid to (received from) related parties		
Ekurhuleni Metropolitan Municipality	(16 281 500)	(1 750 000)

The entity did not incur or pay any directors fees or employee costs. Directors and Management remuneration are paid by Ekurhuleni Development Company (SOC) Limited and details to such remuneration is available for inspection at the entity's registered office.

28. 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 note 3, cash and cash equivalents disclosed in note 7, 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.

There are no externally imposed capital requirements.

Notes to the Annual Financial Statements

28. Risk management (continued)

Liquidity risk

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Finance lease obligation	46 581	-	-	-
Conditional grant	-	7 248 863	-	-
Trade and other payables	2 975 663	-	-	-
Provisions	1 741 909	-	-	-
Tenants deposits	3 441 115	-	-	-

At 30 June 2015 (restated)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	-	-	10 793 533	-
Loans from economic entities	11 090 663	-	-	-
Trade and other payables	761 344	-	-	-
Provisions	286 891	-	-	-
Tenants deposits	1 959 199	-	-	-

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk arises from long-term borrowings therefore the company is not exposed to interest rate risk.

The entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the entity calculates the impact on surplus and deficit of a defined interest rate shift.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

29. Going concern and consolidation of companies (Transfer of functions)

As reported in the 2015 Annual Financial Statements, the Board passed a resolution on 30 June 2015 to proceed with the amalgamation of the following related parties into a single company, namely:

• Ekurhuleni Development Company (SOC) Ltd, ("EDC")

• Pharoe Park Housing Company (SOC) Ltd, ("Pharoe Park")

• Germiston Phase II Housing Company (SOC) Ltd ("Germiston Phase II Housing Company") and

29. Going concern and consolidation of companies (Transfer of functions) (continued)

• Lethabong Housing Institute (SOC) NPC (“Lethabong Housing Institute”).

On 28 January 2016 the Company’s sole Shareholder, Ekurhuleni Metropolitan Municipality, by Council Resolution approved the consolidation of EDC, Pharoe Park and Germiston Phase II Housing Company.

It was however resolved not to consolidate Lethabong Housing Institute, but rather to transfer Lethabong Housing Institute's properties back to the Ekurhuleni Municipality and wind up the company.

Management has implemented the Shareholder’s Special Resolution. Ekurhuleni Development Company (SOC) Ltd Registration number 2000/007936/07, and Pharoe Park Housing Company (SOC) Ltd, Registration number 1997/016085/07, both fellow subsidiaries of Ekurhuleni Metropolitan Municipality, transferred all of their business, staff, assets and liabilities as going concerns to Germiston Phase II Housing Company (SOC) Ltd on 30 June 2016, the effective transfer date.

It should be noted that the key operations of the legacy entities will continue to function normally in the single entity of Phase II Housing Company.

The consolidation will prevent a duplication of functions and result in alignment with SHRA funding requirements. It will also increase the solvency of Phase II Housing Company.

The transfers were done at nominal values of R1-00 for each company.

The registration of all assets, such as immovable property, cessation of creditors, etc. transferred to Germiston Phase II Housing Company is in process and is expected to be completed within 3-6 months after the transfer date recognized in the annual financial statements. All control, rights and obligations of all the business' staff, assets and liabilities were however transferred to Germiston Phase II Housing Company on 30 June 2016, which assumed ownership of the business, assets and liabilities of EDC and Pharoe Park from that date.

The ability of the entity to continue as a going concern after the consolidation still is dependent on a number of factors. The most significant of these is that the accounting officer has the resources in place to continue in operation for the foreseeable future. The existence of the entity is dependent on the continued support of its shareholder.

During the year the shareholder assisted with grants of R16 281 500 to Germiston Phase II Housing Company, which was mainly used for the consolidation of the companies. Additional grants have been approved for 2016/2017 amounting to R3.5 million. At 30 June 2016, the entity had an accumulated surplus of R87 575 591 and that the entity's total assets exceed its liabilities by R87 575 691.

Management therefore foresees that the entity will continue as a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement, contingent obligations and commitments will occur in the ordinary course of business.

The consolidation of the companies represents a transfer of functions of entities under common control. Assets and liabilities were transferred at carrying values in terms of GRAP 105.

The transfer of the assets and liabilities to Germiston Phase II Housing Company resulted in an increase of the Net Asset Value of R18 874 032. A deferred tax asset amounting to R27 088 609 (including the deferred tax asset taken over from EDC of R358 628) also had to be raised as a result from the transfer of functions.

The full financial effect of the transfer of functions from EDC and Pharoe Park in the financial statments of Germiston Phase II Housing Company is summarised as follows.

29. Going concern and consolidation of companies (Transfer of functions) (continued)

ASSETS	Germiston Phase II balances before transfer of functions	EDC balances - transfers of functions in	Pharoe Park balances - transfers of functions in	Elimination of inter-company loans and creation of resultant deferred tax asset	Germiston Phase II closing balances after transfer of functions
Inventories	-	-	115 175	-	115 175
Loans to economic entities	16 795 534	15 639 582	14 742 221	(42 141 526)	5 035 811
Current tax receivable	(10 000)	619 654	444 288	-	1 053 942
Trade and other receivable from exchange transactions	22 510	271 311	158 900	-	452 721
Consumer debtors	681 942	-	407 543	-	1 089 485
Cash and cash equivalents	17 152 321	415 184	1 459 741	-	19 027 246
Investment property	32 433 872	-	15 424 234	-	47 858 106
Property, plant and equipment	136 324	806 201	215 169	-	1 157 694
Intangible assets	-	151 033	-	-	151 033
Deferred tax	-	358 628	-	26 729 981	27 088 609
	67 212 503	**18 261 593**	**32 967 271**	**(15 411 545)**	**103 029 822**

LIABILITIES	Germiston Phase II balances before transfer of functions	EDC balances - transfers of functions in	Pharoe Park balances - transfers of functions in	Elimination of inter-company loans and creation of resultant deferred tax asset	Germiston Phase II closing balances after transfer of functions
Loans from economic entities	(14 642 800)	(16 765 588)	(10 733 138)	42 141 526	-
Finance lease obligation	-	(46 581)	-	-	(46 581)
Trade and other payables from exchange transactions	(1 065 475)	(590 289)	(989 731)	-	(2 645 495)
VAT payable	-	(330 168)	-	-	(330 168)
Provisions	(268 411)	(1 280 815)	(192 683)	-	(1 741 909)
Tenants' deposits	(2 015 276)	-	(1 425 839)	-	(3 441 115)
Unspent conditional grants	(7 248 863)	-	-	-	(7 248 863)
	(25 240 825)	**(19 013 441)**	**(13 341 391)**	**42 141 526**	**(15 454 131)**

NET ASSETS	Germiston Phase II balances before transfer of functions	EDC balances - transfers of functions in	Pharoe Park balances - transfers of functions in	Inter-company eliminations and creation of resultant deferred tax asset	Germiston Phase II balances after transfer of functions
Net transfer through accumulated surplus	41 971 578	(751 848)	19 625 880	26 729 981	87 575 591
Share cappital	100	-	-	-	100
	41 971 678	**(751 848)**	**19 625 880**	**26 729 981**	**87 575 691**

30. Fruitless and wasteful expenditure

Interest: Ekurhuleni Metropolitan Municipality	52 535	52 535
Condoned	(52 535)	-
	-	**52 535**

31. Irregular expenditure

Opening balance	2 118 732	1 403 258
Add: Irregular Expenditure - current year	229 155	715 474
	2 347 887	**2 118 732**

Analysis of expenditure awaiting condonation per age classification

Current year	229 155	715 474
Prior years	2 118 732	1 403 258
	2 347 887	**2 118 732**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
None compliance with paragraph 16A3.2 of the treasury regulations.	Forensic investigation is in progess	944 629

An amount of R1 403 258 relates to a Bid awarded to Ikageng Co-operative without following competitive bid process for the amount of R900 000 and payments to the value of R449 934 made to AMMM Attorneys in excess of the contract amount . Furthermore procurement processes were not followed in the procurement of goods and services for the amount of R 53 324

32. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	-	28 486
Current year fee	305 460	298 931
Amount paid - current year	(305 460)	(327 417)
	-	-

VAT

Transfer of functions in - Ekurhuleni Development Company (SOC) Ltd - VAT payable	330 168	-

33. Financial instruments disclosure

Categories of financial instruments

30 June 2016

Financial assets

	At amortised cost
Loans to economic entities	5 035 811
Trade and other receivables from exchange transactions	1 506 663
Consumer debtors	1 089 484
Cash and cash equivalents	19 027 246
	26 659 204

Financial liabilities

	At amortised cost
Trade and other payables from exchange transactions	2 975 663
Tenants deposits	3 441 115
Unspent conditional grants	7 248 863
Finance lease obligation	46 581

33. Financial instruments disclosure (continued)

	13 712 222

30 June 2015 (restated)

Financial assets

	At amortised cost
Loans to economic entities	11 808 071
Trade and other receivables from exchange transactions	14 958
Consumer debtors	1 381 569
Cash and cash equivalents	23 122 384
	36 326 982

Financial liabilities

	At amortised cost
Loans from economic entities	11 090 663
Trade and other payables from exchange transactions	761 344
Tenants Deposits	1 959 199
Unspent conditional grants	10 793 533
	24 604 739

34. Prior period errors

Interest on rental deposits as calculated in the prior year, did not take into account that some tenants were refunded their deposits with interest previously and subsequently charged a new deposits. Provision for Tenants deposits has now been adjusted by R19 528.

The correction of the error(s) results in adjustments as follows:

Statement of financial position	Balance as previously reported	Restated balance	Adjustment
Provisions: Interest on rental deposits	306 419	286 891	19 528

Statement of Financial Performance	Balance as previously reported	Restated balance	Adjustment
Interest on rental deposits	79 115	59 587	19 528

35. Comparative figures

Certain comparative figures have been reclassified.

Recoveries included interest on outstanding balances charged. This was reclassified to interest.

The effects of the reclassification are as follows:

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Recoveries	2 904 434	(141 100)	2 763 334
Interest received	1 250 114	141 100	1 391 214
Total	**4 154 548**	**-**	**4 154 548**

Notes to the Annual Financial Statements

Figures in Rand

36. Finance lease obligation

Minimum lease payments due		
- within one year	50 516	50 516
- 2 years	-	50 516
	50 516	101 032
less: future finance charges	(3 935)	(15 538)
Present value of minimum lease payments	**46 581**	**85 494**
Present value of minimum lease payments due		
- within one year	50 516	38 913
- 2 years	-	46 581
	50 516	**85 494**
Non-current liabilities	-	46 581
Current liabilities	46 581	38 913
	46 581	**85 494**

It is entity policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term is 1-3 years and the average effective borrowing rate was 18% (2015: 18%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The entity's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

37. Taxation

No provision has been made for 2016 tax as the entity has no taxable income for the year. The estimated taxable loss available for set off against future taxable income is R - (2015: R 8 275 572).

38. Operating lease

The entity rents out housing units in accordance with Social Housing Regulatory Authority guidelines. In line with these guidelines, the operating lease agreements entered into between the entity and various tenants vary significantly on an individual basis, ranging from month to month leases up to leases spanning several years. Therefore it would be impractical for the entity to straight line leases.

39. Change in estimate

Consumer debtors - Debt impairment provision

Due to a change in estimate for impairment provision of consumer debtors, the provision increased in the current year.

The complete debtor's balance of a debtor, who has aged balances up to and older than 120 days, is now 100% provided for. Previously such balances were only partially provided for.

The effect of this revision has increased the provision for the current period by R1 100 795.

There is no impact on the cash flow statement.

40. Capital Commitments

At year end the entity did not have any capital commitments.