

**LETHABONG HOUSING INSTITUTE (SOC) NPC**  
**(REGISTRATION NUMBER 2000/005573/08)**  
**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 Finance 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

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## GENERAL INFORMATION

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<b>NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES</b>	Lethabong Housing Institute is registered in terms of Section 21 of the Companies Act. The main purpose is to provide affordable housing. Vacant land is acquired, services installed and houses erected and sold.
<b>DIRECTORS</b>	F Segole (Non-Executive Director) L Netshitenzhe (Non-Executive Director) K Maithifu (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)
<b>REGISTERED OFFICE</b>	Shop no. 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
<b>BUSINESS ADDRESS</b>	Shop no. 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
<b>POSTAL ADDRESS</b>	P O Box 1245 Germiston 1400
<b>CONTROLLING ENTITY</b>	Ekurhuleni Metropolitan Municipality incorporated in South Africa
<b>BANKERS</b>	First National Bank & Investec
<b>AUDITORS</b>	Auditor General SA
<b>SECRETARY</b>	Adv Kgabo Sebola
<b>COMPANY REGISTRATION NUMBER</b>	2000/005573/08

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

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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
MIG	Municipal Infrastructure Grant (Previously CMIP)
NRV	Net Realisable Value
SOC	State Owned Company

# **LETHABONG HOUSING INSTITUTE (SOC) NPC**

Annual Financial Statements for the year ended 30 June 2016

## **ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL**

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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 Standards 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 5 to 27, which have been prepared on the basis approved by the board on 30 June 2016 and were signed on its behalf by:

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**L Vutula (Non-Executive Director)**  
**Chairperson-Board of Directors**

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**A Pillay (Executive Director)**  
**Chief Executive Officer**

**Thursday, 30 June 2016**

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## DIRECTOR'S REPORT

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

### 1. INCORPORATION

The entity was incorporated on March 23, 2000 and obtained its certificate to commence business on the same day.

### 2. GOING CONCERN

We draw attention to note 17 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 (Phase II Housing Company) and
- Lethabong Housing Institute (SOC) NPC. ("Lethabong Housing Institute")

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

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

This treatment is in line with the requirements of Section 30(3)(iii)(cc) of the Income Tax Act and is therefore tax free. The properties will be transferred to EMM as part of the winding up process.

The Board has already engaged in the process of winding up Lethabong Housing Institute's statutory company, which will be completed before 30 June 2017.

Resultantly, Lethabong Housing Institute is considered not to be a going concern as at 30 June 2016.

### 3. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year.

### 4. ACCOUNTING POLICIES

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

### 5. NON-CURRENT ASSETS

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

### 6. DIRECTORS

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	
C Lehoka (Non-Executive Director)	South African	Resigned Wednesday, 04 November 2015
K Maithifu (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

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## DIRECTOR'S REPORT

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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

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## DIRECTOR'S REPORT

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### 7. SECRETARY

The secretary of the entity is Adv Kgabo Sebola of:

Business address

Shop no. 9 Pharoe Park  
Cnr Jack & Queen Street  
Germiston  
1400

Postal address

P O Box 1245  
Germiston  
1400

### 8. CORPORATE GOVERNANCE

#### GENERAL

The is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the supports the highest standards of corporate governance and the on-going 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 2002. The 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:

- ensures that the entity including, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising
  - 8 non-executive directors, all of whom are independent directors as defined in the Code.

#### CHAIRPERSON AND CHIEF EXECUTIVE

The Chairperson is a non-executive and independent director.

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 Ms F Segole.

#### BOARD MEETINGS

The board met at least on 6 separate occasions during the financial year with the accounting officer present. The scheduled to meet at least 4 times per annum.

In terms of Section 166 (6) b of the Municipal Finance Management Act, a municipality may establish a single Audit Committee for itself and municipal entities under its control.

The entity does not have its own audit committee. The audit committee of the Ekurhuleni Metropolitan Municipality is responsible for the audit committee function. This is in compliance the Municipal Finance Management Act, 2003.

# **LETHABONG HOUSING INSTITUTE (SOC) NPC**

Annual Financial Statements for the year ended 30 June 2016

## **DIRECTOR'S REPORT**

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### **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.

### **9. CONTROLLING ENTITY**

The entity's controlling entity is the Ekurhuleni Metropolitan Municipality.

### **10. BANKERS**

First National bank and Investec.

### **11. AUDITORS**

Auditor General SA will continue in office for the next financial period.



# **LETHABONG HOUSING INSTITUTE (SOC) NPC**

Annual Financial Statements for the year ended 30 June 2016

## **Company Secretary's Certification**

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### **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.

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Adv Kgabo Sebola  
Company Secretary

Johannesburg

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
<b>Assets - Discontinued operations</b>			
<b>Current Assets</b>			
Inventories	4	10 900 709	10 900 709
Receivables from exchange transactions	3	134 566	134 566
Cash and cash equivalents	6	317 992	301 210
		<b>11 353 267</b>	<b>11 336 485</b>
<b>Total Assets</b>		<b>11 353 267</b>	<b>11 336 485</b>
<b>Liabilities - Discontinued operations</b>			
<b>Current Liabilities</b>			
Loans from related parties	2	5 035 811	4 736 488
Trade and other payables from exchange transactions	5	577	577
		<b>5 036 388</b>	<b>4 737 065</b>
<b>Total Liabilities</b>		<b>5 036 388</b>	<b>4 737 065</b>
<b>Net Assets</b>		<b>6 316 879</b>	<b>6 599 420</b>
<b>Net Assets</b>			
Accumulated surplus		6 316 879	6 599 420

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2016	2015
<b>Revenue - Discontinued operations</b>			
<b>Revenue from exchange transactions</b>			
Interest received - investment	7	16 782	13 913
<b>Expenditure - Discontinued operations</b>			
General Expenses	8	(299 323)	(425 410)
<b>Deficit for the year</b>		<b>(282 541)</b>	<b>(411 497)</b>

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>7 010 917</b>	<b>7 010 917</b>
Deficit for the year	(411 497)	(411 497)
Total changes	(411 497)	(411 497)
<b>Balance at 01 July 2015</b>	<b>6 599 420</b>	<b>6 599 420</b>
Changes in net assets		
Deficit for the period	(282 541)	(282 541)
Total changes	(282 541)	(282 541)
<b>Balance at 30 June 2016</b>	<b>6 316 879</b>	<b>6 316 879</b>

Note(s)

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
<b>Cash flows from operating activities - Discontinued operations</b>			
<b>Receipts</b>			
Interest income		16 782	13 913
<b>Payments</b>			
Suppliers		(299 323)	(445 409)
<b>Net cash flows from operating activities</b>	10	<b>(282 541)</b>	<b>(431 496)</b>
<b>Cash flows from investing activities- Discontinued operations</b>			
Proceeds from loans from economic entities		299 323	445 409
<b>Net cash flows from investing activities</b>		<b>299 323</b>	<b>445 409</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>16 782</b>	<b>13 913</b>
Cash and cash equivalents at the beginning of the year		301 210	287 297
<b>Cash and cash equivalents at the end of the year</b>	6	<b>317 992</b>	<b>301 210</b>

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual

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
<b>30 JUNE 2016</b>											
<b>Financial Performance</b>											
Investment revenue	150 000	-	150 000	-		150 000	16 782		(133 218)	11 %	11 %
Other expenditure	(432 000)	-	(432 000)	-	-	(432 000)	(299 323)	-	132 677	69 %	69 %
<b>Surplus/(Deficit)</b>	<b>(282 000)</b>	<b>-</b>	<b>(282 000)</b>	<b>-</b>		<b>(282 000)</b>	<b>(282 541)</b>		<b>(541)</b>	<b>100 %</b>	<b>100 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>(282 000)</b>	<b>-</b>	<b>(282 000)</b>	<b>-</b>		<b>(282 000)</b>	<b>(282 541)</b>		<b>(541)</b>	<b>100 %</b>	<b>100 %</b>

### Comments to the Statement of Comparison of Budget and Actual

#### 1. Investment Income

Interest is higher than budgeted due to higher returns from the investment.

#### 2. Other Expenditure

Expenses did not materialise as anticipated as no activities took place except for general expenses such as sewerage and refuse charges.

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1. Presentation of Annual Financial Statements

#### Basis of Preparation

These financial statements have been prepared on the basis that the company is not a going concern and that it will be wound up within the next 12 months as disclosed in note 17.

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.

#### 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.

##### • 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 Statement of Comparison of Budget and Actual.

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.

# **LETHABONG HOUSING INSTITUTE (SOC) NPC**

Annual Financial Statements for the year ended 30 June 2016

## **ACCOUNTING POLICIES**

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### **1.3 Going concern**

The entity is deemed not to be a going concern. Refer to in note 17.



# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.4 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:

<b>Class</b>	<b>Category</b>
Loans	Financial asset measured at amortised cost
Receivables from exchange transactions	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:

<b>Class</b>	<b>Category</b>
Loans	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	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.

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

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.4 Financial instruments (continued)

#### **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 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

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.4 Financial instruments (continued)

transferred asset and the associated liability.

### 1.5 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business.

Inventories shall be recognised as an asset if, and only if,

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Unsold properties are valued at lower of cost or net realisable value. Direct costs are accumulated for each separately identifiable development.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at cost at the reporting date due to it being measured at reporting date.

Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.6 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.

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

### 1.7 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.

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.8 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.

### 1.9 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.

### 1.10 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.

### 1.11 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 2014/07/01 to 2015/06/30. 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.

### 1.12 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.

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.13 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.

### 1.14 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.

### 1.15 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability 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.

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>2. Loans to (from) related parties</b>		
<b>Associates</b>		
Ekurhuleni Development Company	(4 906 444)	(4 607 121)
Pharoe Park Housing Company	(99 421)	(99 421)
Germiston Phase II Housing Company	(29 946)	(29 946)
	<b>(5 035 811)</b>	<b>(4 736 488)</b>

Related party loans are unsecured, interest free with no specific repayment terms.

### 3. Receivables from exchange transactions

Related party receivables	34 393	34 393
Other receivables	100 173	100 173
	<b>134 566</b>	<b>134 566</b>

### 4. Inventories

Portion 4 (Remaining extent) of the Holding 264 Geldenhuys Estate Small holdings, Germiston	4 856 400	4 856 400
Erf 1716, 1717 and 1721 Bedfordview Ext 299	5 790 280	5 790 280
Other inventories	254 029	254 029
	<b>10 900 709</b>	<b>10 900 709</b>

### 5. Trade and other payables from exchange transactions

Other payables	577	577
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Trade and other payables are non-interest bearing and are normally settled on 30 days terms.

### 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	317 992	301 210
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### 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
Investec Call account - 1100182677580	317 992	301 210	287 297	317 992	301 210	287 297

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates.

### 7. Investment revenue

<b>Interest revenue</b>		
Bank	16 782	13 913

The amount included in Investment revenue arising from exchange transactions amounted to R 16 782 (30 June 2015: R13 913).

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>8. General expenses</b>		
Assessment rates & municipal charges	165 056	154 009
Auditors remuneration	119 560	212 006
Electricity	108	-
Sewerage and waste disposal	10 002	9 223
Water	4 597	4 022
Gardening	-	46 150
	<b>299 323</b>	<b>425 410</b>

### 9. Auditors' remuneration

Fees	119 560	212 006
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### 10. Net cash flows from operating activities

Deficit	(282 541)	(411 497)
<b>Adjustments for:</b>		
Other non-cash items	-	1
<b>Changes in working capital:</b>		
Trade and other payables from exchange transactions	-	(20 000)
	<b>(282 541)</b>	<b>(431 496)</b>

### 11. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling entity	Ekurhuleni Metropolitan Municipality
Other members of the group	Germiston Phase II Housing Company (SOC) Limited Pharoe Park Housing Company (SOC) Limited Ekurhuleni Development Company (SOC) Limited Brakpan Bus Company (SOC) Limited East Rand Water Company (SOC) NPC
Members of key management	M Pillay (Acting Chief Executive Officer) Dumisani Dlamini (Chief Financial Officer)

During the year, the entity entered into various related party transactions with its controlling entity and other members within the group. All transactions are concluded at arm's length.

#### Related party balances

##### Loan accounts - Owing (to) by related parties

Ekurhuleni Development Company (SOC) Limited	(4 906 444)	(4 607 121)
Pharoe Park Housing Company (SOC) Limited	(99 421)	(99 421)
Germiston Phase II Housing Company (SOC) Limited	(29 946)	(29 946)

##### Amounts included in Trade Receivables (Payables) regarding related parties

Ekurhuleni Metropolitan Municipality	34 393	34 393
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#### Related party transactions

##### Services provided by related parties

Ekurhuleni Metropolitan Municipality	179 763	167 254
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Management remuneration are paid for and by Ekurhuleni Development Company (SOC) Limited.



# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 12. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	577	-	-	-
Loans from related parties	5 035 811	-	-	-
At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	577	-	-	-
Loans from related parties	4 736 488	-	-	-

#### Credit risk

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. Credit guarantee insurance is purchased when deemed appropriate.

### 13. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Current year fee	119 560	212 006
Amount paid - current year	(119 560)	(212 006)
	-	-

### 14. Revenue

Interest received - investment	16 782	13 913
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#### The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received - investment	16 782	13 913
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### 15. Financial instruments disclosure

#### Categories of financial instruments

#### 30 JUNE 2016

#### Financial assets

At amortised cost

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 15. Financial instruments disclosure (continued)

Trade and other receivables from exchange transactions	133 816
Cash and cash equivalents	317 992
	<b>451 808</b>

### Financial liabilities

	At amortised cost
Loans from related parties	5 035 811
Trade and other payables from exchange transactions	577
	<b>5 036 388</b>

### 30 June 2015

### Financial assets

	At amortised cost
Other financial assets (Inventory)	10 900 709
Trade and other receivables from exchange transactions	133 989
Cash and cash equivalents	301 210
	<b>11 335 908</b>

### Financial liabilities

	At amortised cost
Loans from related parties	4 736 488

### Financial instruments in Statement of financial performance

### 30 JUNE 2016

Interest income (calculated using effective interest method) for financial instruments at amortised cost	At amortised cost 16 782
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### 30 June 2015

Interest income (calculated using effective interest method) for financial instruments at amortised cost	At amortised cost 13 913
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### 16. Comparative figures

Certain comparative figures have been reclassified to effect the correct presentation in the annual financial statements.

The effects of the reclassification are as follows:

### Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Receivables from exchange transactions	133 989	577	134 566
Trade and other payables from exchange transactions	-	(577)	(577)
<b>Total</b>	<b>133 989</b>	<b>-</b>	<b>133 989</b>

# LETHABONG HOUSING INSTITUTE (SOC) NPC

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand

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### 17. Going concern

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 ("Phase II Housing Company") and
- Lethabong Housing Institute (SOC) NPC. ("Lethabong Housing Institute")

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

It was resolved not to consolidate Lethabong Housing Institute, but rather to transfer the properties back to the Ekurhuleni Municipality and liquidate the company.

This treatment is in line with the requirements of Section 30(3)(iii)(cc) of the Income Tax Act and is therefore tax free. The properties will be transferred to EMM as part of the winding up process.

The Board has already engaged in the process of winding up Lethabong Housing Institute's statutory company, which will be completed before 30 June 2017.

Resultantly, Lethabong Housing Institute is considered not to be a going concern as at 30 June 2016.