PHAROE PARK HOUSING COMPANY (SOC) LTD

(REGISTRATION NUMBER 1997/016085/07)
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	Shop no. 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
BUSINESS ADDRESS	Shop no. 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
ECONOMIC ENTITY	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	Absa Bank Limited
AUDITORS	Auditor General
SECRETARY	Adv Kgabo Sebola
COMPANY REGISTRATION NUMBER	1997/016085/07

INDEX

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

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)
HIDF	Housing Institute Development Fund
SOC	State Owned Company
SHRA	Social Housing Regulatory Authority

CHIEF EXECUTIVE'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 5 to 42, which have been prepared on the basis approved by the board on 30 June 2016 and were signed on its behalf by:

L Vutula (Non-Executive Director)	**A Pillay (Executive Director)**
Chairperson-Board of Directors	**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 is engaged in social housing institution activities and operates as municipal entity under the laws of South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

3. GOING CONCERN

We draw attention to note 28 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 Shareholder, Ekurhuleni Metropolitan Municipality, approved the transfer of Pharoe Park Housing Company (SOC) Ltd (Pharoe Park) functions to Germiston Phase II Housing Company (SOC) Ltd in accordance with GRAP 105.

This transfer of functions, with an effective date of 30 June 2016, resulted in the transfer of all Pharoe Park’s assets, liabilities and operations to Germiston Phase II Housing Company.

The operations, assets and liabilities of Pharoe Park were transferred to Phase II Housing Company as a going concern and as a result all assets and liabilities were transferred at their carrying amounts. Please refer to note 28 for more information on this transfer of functions.

The transfer of the assets and liabilities to Germiston Phase II Housing Company resulted in a net loss of R19 625 880.

The transfer was done at a nominal value of R1-00. The registration of all assets, such as immovable property, cessation of creditors, etc. in the name of Germiston Phase II Housing Company (SOC) Limited is expected to be completed within 3-6 months after the transfer date recognized in the annual financial statements. All control, rights and obligations to all 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 Pharoe Park from that date.

Resultantly, the Pharoe Park Housing Company (SOC) Ltd statutory company is considered not to be a going concern as from 30 June 2016 going forward.

4. SUBSEQUENT EVENTS

The Board of 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).

DIRECTOR'S REPORT

6. CONTRIBUTIONS FROM OWNERS

The entity was incorporated with an authorised share capital of 5,000 ordinary shares of R1 each of which 107 were issued at par value.

In line with the Special Resolution of the shareholder, the company bought the 7 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 on the non-current asset 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	
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

Shop no. 9 Pharoe Park
Cnr Jack and 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 compliance with the 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 entity, 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

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 has met on 6 separate occasions during the year ending 30 June 2016. The board is schedules to meet at least 4 times per annum.

DIRECTOR'S REPORT

AUDIT COMMITTEE

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 function. The audit committee of the Ekurhuleni Metropolitan Municipality is responsible for the audit committee functions.This is in compliance 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 the Ekurhuleni Metropolitan Municipality.

12. BANKERS

ABSA Bank Limited.

13. AUDITORS

In accordance with Section 92 of the MFMA No 56 of 2003 the Auditor General South Africa remains the auditor of the entity. Auditor General will continue as the company's external auditors.

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 Companies and Intellectual Property Commission 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

	Note(s)	2016	2015 Restated*
ASSETS			
CURRENT ASSETS			
Inventories	3	-	115 175
Loans to economic entities	4	-	11 190 084
Receivables from exchange transactions	5	-	157 883
Consumer debtors	6	-	1 066 299
Cash and cash equivalents	7	-	5 264 513
		-	**17 793 954**
NON-CURRENT ASSETS			
Investment property	8	-	15 092 154
Property, plant and equipment	9	-	133 638
		-	**15 225 792**
Total Assets		**-**	**33 019 746**
LIABILITIES			
CURRENT LIABILITIES			
Loans from economic entities	4	-	7 984 294
Trade and other payables from exchange transactions	10	-	669 214
Provisions	11	-	210 312
Tenants' Deposit		-	1 417 249
		-	**10 281 069**
Total Liabilities		**-**	**10 281 069**
Net Assets		**-**	**22 738 677**
NET ASSETS			
Contributions from owners	12	100	4 000 100
Reserves			
Accumulated surplus - Recognised loss on transfer of functions		(19 625 880)	-
Accumulated surplus		19 625 780	18 738 577
Total Net Assets		**-**	**22 738 677**

* See Note 33

Statement of Financial Performance

	Note(s)	2016	2015 Restated*
Revenue			
Rental of facilities and equipment	14	11 727 696	11 267 858
Recoveries	15	2 346 157	2 332 246
Other income	16	54 760	75 784
Interest received	17	292 160	250 648
Government grants & subsidies	18	20 430 102	1 750 000
Total revenue		**34 850 875**	**15 676 536**
Expenditure			
Administration	19	(10 580 340)	(7 416 326)
Depreciation and amortisation		(446 499)	(429 547)
Finance costs	20	(27 256)	(42 071)
Debt Impairment	21	(1 504 930)	(1 501 590)
Repairs and maintenance	22	(2 547 079)	(1 287 387)
General Expenses	23	(4 621 754)	(4 357 137)
Total expenditure		**(19 727 858)**	**(15 034 058)**
Operating surplus		**15 123 017**	**642 478**
Surplus before taxation		**15 123 017**	**642 478**
Taxation	36	14 235 814	-
Surplus for the year		**887 203**	**642 478**
Attributable to:			
Owners of the controlling entity		887 203	637 306
Non-controlling interest		-	5 172
		887 203	**642 478**

* See Note 33

STATEMENT OF CHANGES IN NET ASSETS

	Contributions from owners	Share premium	Total share capital	Recognise loss on transfer of functions in accumulated surplus	Accumulated surplus	Tot as
Opening balance as previously reported	107	3 999 993	4 000 100	-	18 096 099	22
Balance at 01 July 2014	**107**	**3 999 993**	**4 000 100**	**-**	**18 096 099**	**22**
Changes in net assets						
Surplus for the period	-	-	-	-	642 478	
Total changes	-	-	-	-	642 478	
Opening balance as previously reported	107	3 999 993	4 000 100	-	18 708 437	22
Adjustments						
Prior year adjustments	-	-	-	-	30 140	
Restated* Balance at 01 July 2015	**107**	**3 999 993**	**4 000 100**	**-**	**18 738 577**	**22**
Changes in net assets						
Surplus for the period	-	-	-	-	887 203	
GPF Shares paid	(7)	(3 999 993)	(4 000 000)	-	-	(4
Recognise loss on transfer of functions in accumulated surplus	-	-	-	(19 625 880)	-	(19
Total changes	(7)	(3 999 993)	(4 000 000)	(19 625 880)	887 203	(22
Balance at 30 June 2016	**100**	**-**	**100**	**(19 625 880)**	**19 625 780**	
Note(s)	12	12	12			

* See Note 33

CASH FLOW STATEMENT

	Note(s)	2016	2015 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Customers		10 881 522	9 563 625
Interest income		167 691	139 153
Other receipts: Grants		20 430 102	1 750 000
Other receipts		2 524 369	2 519 524
		34 003 684	13 972 302
Payments			
Other payments		(6 865 944)	(2 779 823)
Finance costs		(27 256)	(42 071)
Administration		(10 580 340)	(7 416 326)
Taxation paid	38	(14 680 102)	-
		(32 153 642)	(10 238 220)
Net cash flows from operating activities	25	**1 850 042**	**3 734 082**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(123 917)	(44 670)
Purchase of investment property	8	(736 194)	-
Loans to economic entities repaid		(803 293)	(2 061 568)
Net cash flows from investing activities		**(1 663 404)**	**(2 106 238)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Reduction of share capital	12	(4 000 000)	-
Movement in deposits charged		8 590	83 825
Net cash flows from financing activities		**(3 991 410)**	**83 825**
Net increase/(decrease) in cash and cash equivalents		**(3 804 772)**	**1 711 669**
Cash and cash equivalents at the beginning of the year		5 264 513	3 552 844
Transfer of functions out		(1 459 741)	-
Cash and cash equivalents at the end of the year	7	**-**	**5 264 513**

* See Note 33

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	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	256 000	-	256 000	-		256 000	292 160		36 160	114 %	114 %
Transfers recognised - operational	19 930 102	-	19 930 102	-		19 930 102	20 430 102		500 000	103 %	103 %
Other own revenue	15 759 000	-	15 759 000	-		15 759 000	14 128 613		(1 630 387)	90 %	90 %
Total revenue (excluding capital transfers and contributions)	**35 945 102**	**-**	**35 945 102**	**-**		**35 945 102**	**34 850 875**		**(1 094 227)**	**97 %**	**97 %**
Administration	(10 580 000)	-	(10 580 000)	-	-	(10 580 000)	(10 580 340)	-	(340)	100 %	100 %
Debt impairment	(1 587 000)	-	(1 587 000)			(1 587 000)	(1 504 930)	-	82 070	95 %	95 %
Depreciation and asset impairment	(453 000)	-	(453 000)			(453 000)	(446 499)	-	6 501	99 %	99 %
Finance charges	-	-	-	-	-	-	(27 256)	-	(27 256)	- %	- %
Other expenditure	(4 732 000)	-	(4 732 000)	-	-	(4 732 000)	(7 168 833)	-	(2 436 833)	151 %	151 %
Total expenditure	**(17 352 000)**	**-**	**(17 352 000)**	**-**	**-**	**(17 352 000)**	**(19 727 858)**	**-**	**(2 375 858)**	**114 %**	**114 %**
Surplus/(Deficit)	**18 593 102**	**-**	**18 593 102**	**-**		**18 593 102**	**15 123 017**		**(3 470 085)**	**16 %**	**81 %**
Transfers recognised - capital	(4 000 000)	-	(4 000 000)	-		(4 000 000)	-		4 000 000	- %	- %
Surplus (Deficit) after capital transfers and contributions	**14 593 102**	**-**	**14 593 102**	**-**		**14 593 102**	**15 123 017**		**529 915**	**104 %**	**104 %**
Taxation	14 680 102	-	14 680 102	-		14 680 102	14 235 814		(444 288)	97 %	97 %
Surplus/(Deficit) for the year	**(87 000)**	**-**	**(87 000)**	**-**		**(87 000)**	**887 203**		**974 203**	**- %**	**(1 020)%**

Appropriation Statement

	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 5% as a result of an increase in late payments of rental income. The interest received from investments and cash exceeded the budget by 23% as more cash balances and investments were held with the bank than anticipated. This resulted in an average excess of 14%.

10% 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. The refurbishment of Block E took longer than anticipated, as a result the budgeted amount for18 units was not billed during the quarter

2.Other expenses.

Impairment budget was under utilised by 41%. There has been a change in the method of calculating the bad debts impairment which has resulted in an increase in the bad debts provision in the current year.

An overspending of 51% was realised in the other expenditure line item. The budget for the 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. Insurance costs also exceeded the budget by 30%. The budget for insurance costs is based on historical cost plus 5%, while the actual expenditure become more than annual budget by 130%

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

Basis of Preparation

On 28 January 2016 the Company's Shareholder, Ekurhuleni Metropolitan Municipality, approved the transfer of Pharoe Park Housing Company (SOC) Ltd ("Pharoe Park") functions to Phase II Housing Company (SOC) Ltd ("Germiston Phase II Housing Company") in accordance with GRAP 105. This transfer of functions, with an effective date of 30 June 2016, resulted in the transfer of all Pharoe Park's assets, liabilities and operations to Germiston Phase II Housing Company. The operations, assets and liabilities of Pharoe Park were transferred to Phase II Housing Company as a going concern and as a result all assets and liabilities were transferred at their carrying amounts. Please refer to note 28 for more information on this transfer of functions. These financial statements have been prepared on this basis.

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, 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, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The entity assesses where evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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 indicatorspresent 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.

ACCOUNTING POLICIES

• 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 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.

1.2 PRESENTATION CURRENCY

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

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

ACCOUNTING POLICIES

1.3 INVESTMENT PROPERTY (continued)

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.

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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed in the prospective basis.

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.

ACCOUNTING POLICIES

1.5 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

ACCOUNTING POLICIES

1.5 FINANCIAL INSTRUMENTS (continued)

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.

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

ACCOUNTING POLICIES

1.5 FINANCIAL INSTRUMENTS (continued)

statement of financial performance.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in statement of financial performance.

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 transferred asset and the associated liability.

1.6 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 cost. 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.

ACCOUNTING POLICIES

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]

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.

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.

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 2015/07/01 to 2016/06/30. 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.

ACCOUNTING POLICIES

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 ventures).

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.

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 (TRANSFER OF FUNCTIONS)

As referred to in note 28 the company's business, assets and liabilities were transferred to Germiston Phase II Housing Company (SOC) LTD on 30 June 2016 in line with GRAP 105.

The entity is therefore considered not to be a going concern as from 30 June 2016 going forward.

The 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.

ACCOUNTING POLICIES

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.

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.

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

	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. INVENTORIES

	2016	2015
Work-in-progress - Property Developments	-	115 175

4. LOANS TO/(FROM) ECONOMIC ENTITIES

ECONOMIC ENTITIES

	2016	2015
Ekurhuleni Development Company	-	(7 984 294)
Germiston Phase II Housing Company	-	11 090 663
Lethabong Housing Company	-	99 421
	-	**3 205 790**

Intercompany 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).

	2016	2015
Current assets	-	11 190 084
Current liabilities	-	(7 984 294)
	-	**3 205 790**

5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2016	2015
Other receivables	-	157 883

	2016	2015

5. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

TRADE AND OTHER RECEIVABLES IMPAIRED

As of 30 June 2016, trade and other receivables of R - (30 June 2015: R 157 883) are not considered to be impaired and were not provided for.

The management of the entity have assessed and individual or 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	-	4 896 301
LESS: ALLOWANCE FOR IMPAIRMENT		
Housing rental	-	(3 830 002)
NET BALANCE		
Housing rental	-	1 066 299
HOUSING RENTAL		
Current (0 -30 days)	-	616 396
31 - 60 days	-	433 396
61 - 90 days	-	182 644
91 - 120 days	-	134 138
121 - 365 days	-	3 529 727
	-	**4 896 301**
RECONCILIATION OF ALLOWANCE FOR IMPAIRMENT		
Balance at beginning of the year	-	(3 094 725)
Contributions to allowance	-	(1 492 107)
Debt impairment written off against allowance	-	756 830
	-	**(3 830 002)**

CONSUMER DEBTORS COLLATERAL

Consumer debtors were enhanced in quality with tenants deposits held as collateral on amounts owing amounting to R- (30 June 2015: R 1 417 249).

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2016	2015
Bank balances	-	4 000 798
Short-term deposits	-	1 263 715
	-	**5 264 513**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

7. CASH AND CASH EQUIVALENTS (continued)

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 - 4050383636	-	4 000 798	2 328 374	-	4 000 798	2 328 374
ABSA - Call Account	-	1 263 715	1 224 470	-	1 263 715	1 224 470
Total	**-**	**5 264 513**	**3 552 844**	**-**	**5 264 513**	**3 552 844**

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.

The control over Pharoe Park bank accounts were relinquished to Germiston Phase II in terms of the consolidation agreement (refer to note 28 Going concern and consolidation of companies)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

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	-	-	-	21 741 204	(6 649 050)	15 092 154

RECONCILIATION OF INVESTMENT PROPERTY -30 JUNE 2016

	Opening balance	Additions resulting from capitalised subsequent expenditure	Transfer of functions	Depreciation	Total
Investment property	15 092 154	736 194	(15 424 235)	(404 113)	-

RECONCILIATION OF INVESTMENT PROPERTY - 30 JUNE 2015

	Opening balance	Depreciation	Total
Investment property	15 488 996	(396 842)	15 092 154

	2016	2015
Fair value of investment properties	-	83 800 000

PROPERTY DETAILS

The property transferred to Germiston Phase II Housing Company comprises of:
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 rental units.

Fair value of investment property amounting to R83 800 000 was determined as at year end 30 June 2015 by a third party valuation in 2015. (2014 - R87 747 000 as per the third party valuation in 2012 adjusted by the House Price Index of ABSA at 6.4%).

The control over the Pharoe Park investment properties were relinquished to Germiston Phase II Housing Company on 30 June 2016 in terms of the consolidation agreement (refer to note 28 Going concern and consolidation of companies).

DETAILS OF PROPERTY

INVESTMENT PROPERTY AT COST

	2016	2015
- Land	-	1 995 063
- Buildings	-	19 548 641
- Capitalised expenditure	-	197 500
	-	**21 741 204**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

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**
Other property, plant and equipment	-	-	-	282 500	(148 862)	133 638

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2016

	Opening balance	Additions	Transfer of functions	Depreciation	Total
Other property, plant and equipment	133 638	123 917	(215 169)	(42 386)	-

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2015

	Opening balance	Additions	Depreciation	Total
Other property, plant and equipment	121 673	44 670	(32 705)	133 638

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. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2016	2015
Trade payables	-	268 359
Rentals received in advance	-	365 459
Unidentified receipts	-	35 396
	-	**669 214**

Trade and other payables are interest bearing and are normally settled within 30 days.

11. PROVISIONS

RECONCILIATION OF PROVISIONS -30 JUNE 2016

	Opening Balance	Additions	Utilised during the year	Transfer of functions	Total
Provision for interest on tenant's deposits	210 312	27 107	(44 736)	(192 683)	-

RECONCILIATION OF PROVISIONS - 30 JUNE 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for interest on tenant's deposits	187 840	41 928	(19 456)	210 312

The interest 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

12. CONTRIBUTIONS FROM OWNERS

	2016	2015
AUTHORISED		
5000 Ordinary shares of par value of R1 each	5 000	5 000
ISSUED		
Ordinary	100	107
Share premium	-	3 999 993
	100	**4 000 100**

Gauteng Partnership Fund bought shares in Pharoe Park Housing Company during 2005 and paid a share premium of R3 999 993 for 7 shares of the entity. During the current year the shares were purchased by the entity and cancelled. The Ekurhuleni Metropolitan Municipality now owns 100% of the entity's shares.

13. REVENUE

	2016	2015
Rental of facilities and equipment	11 727 696	11 267 858
Recoveries	2 346 157	2 332 246
Other income	54 760	75 784
Interest received	292 160	250 648
Government grants & subsidies	20 430 102	1 750 000
	34 850 875	**15 676 536**

	2016	2015
THE AMOUNT INCLUDED IN REVENUE ARISING FROM EXCHANGES OF GOODS OR SERVICES ARE AS FOLLOWS:		
Rental of facilities and equipment	11 727 696	11 267 858
Recoveries	2 346 157	2 332 246
Other income	54 760	75 784
Interest received	292 160	250 648
	14 420 773	**13 926 536**

THE AMOUNT INCLUDED IN REVENUE ARISING FROM NON-EXCHANGE TRANSACTIONS IS AS FOLLOWS:

	2016	2015
TRANSFER REVENUE		
Government grants & subsidies	20 430 102	1 750 000

14. RENTAL OF FACILITIES AND EQUIPMENT

	2016	2015
FACILITIES AND EQUIPMENT		
Rental income: Social housing	11 293 265	10 881 693
Rental income: Retail	434 431	386 165
	11 727 696	**11 267 858**

15. RECOVERIES

	2016	2015
Legal fees	412 837	534 928
Refuse	560 164	538 723
Damage and repairs	115 445	45 751
Sewerage	414 607	398 810
Water	843 104	814 034
	2 346 157	**2 332 246**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

16. OTHER INCOME

Letters of demand charge	45 760	45 870
Lease administration fees	9 000	29 914
	54 760	**75 784**

17. INTEREST RECEIVED

Bank	167 691	139 153
Interest charged on trade and other receivables	124 469	111 495
	292 160	**250 648**

The amount included in interest received arising from exchange transactions amounted to R 167 691(30 June 2015: R139 153).

18. GOVERNMENT GRANTS AND SUBSIDIES

Government grant	20 430 102	1 750 000

19. ADMINISTRATIVE EXPENDITURE

Administration and management fees paid - related party	10 580 340	7 416 326

Ekurhuleni Development Company renders a management service to the entity. All staff services are supplied by EDC.

20. FINANCE COSTS

Trade and other payables	149	143
Interest on deposits paid	27 107	41 928
	27 256	**42 071**

21. DEBT IMPAIRMENT

Contributions to debt impairment provision	954 773	744 760
Bad debts written off	550 157	756 830
	1 504 930	**1 501 590**

22. REPAIRS AND MAINTENANCE

Planned maintenance	1 314 784	251 584
General repairs	1 232 295	1 035 803
	2 547 079	**1 287 387**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

23. GENERAL EXPENSES

Assessment rates & municipal charges	86 422	79 083
Auditors remuneration	269 761	298 968
Bank charges	156 027	150 848
Cleaning	241 500	252 193
Consulting and professional fees	997 052	638 117
Debt collection	20 394	151 845
Electricity	7 879	1 900
Gardening	-	5 500
Insurance	216 000	88 851
Rent equipment	-	47 148
Pest control	15 649	44 450
Printing and stationery	855	-
Promotions	-	42 448
Refuse	808 008	747 934
Security (Guarding of municipal property)	1 311 390	1 112 717
Sewerage and waste disposal	156 645	194 761
Telephone and fax	1 188	1 155
Water	332 984	499 219
	4 621 754	**4 357 137**

24. AUDITORS' REMUNERATION

Fees	269 761	298 968

25. CASH GENERATED FROM OPERATIONS

Surplus	887 203	642 478
ADJUSTMENTS FOR:		
Depreciation	446 499	429 547
Debt impairment	1 504 930	1 501 590
Movements in provisions	(17 629)	22 472
Movement in tax receivable and payable	(444 288)	-
CHANGES IN WORKING CAPITAL:		
Receivables from exchange transactions	(1 017)	2 948 216
Consumer debtors	(846 174)	(1 713 716)
Trade and other payables from exchange transactions	320 518	(96 505)
	1 850 042	**3 734 082**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

26. 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
	Lethabong Housing Institute (SOC) NPC
	Ekurhuleni Development Company (SOC) Limited
	Brakpan Bus Company (SOC) Limited
	East Rand Water Care Company NPC
Members of key management	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	-	(7 984 294)
Germiston Phase II Housing Company (SOC) Limited	-	11 090 663
Lethabong Housing Institute (SOC) NPC	-	99 421

RELATED PARTY TRANSACTIONS

	2016	2015
SERVICES PROVIDED BY RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	1 391 938	1 522 898
RENT PAID TO (RECEIVED FROM) RELATED PARTIES		
Ekurhuleni Development Company (SOC) Limited	(434 431)	(386 165)
ADMINISTRATION FEES PAID TO RELATED PARTIES		
Ekurhuleni Development Company (SOC) Limited	10 580 340	7 416 326
GRANTS PAID TO (RECEIVED FROM) RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	(20 430 102)	(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.

27. RISK MANAGEMENT

CAPITAL RISK MANAGEMENT

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes, 4, 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.

27. 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 into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from economic entities	7 984 294	-	-	-
Trade and other payables	669 215	-	-	-
Provisions	210 313	-	-	-
Tenants deposits	1 417 248	-	-	-

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.

28. 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 . (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.

Management has implemented the Shareholder’s Special Resolution and it was resolved to transfer the complete businesses (including all assets and liabilities), of EDC and Pharoe Park to Phase II Housing Company, which was completed on the effective transaction date of 30 June 2016.

The Board has already approved, and management is engaged in, the process of winding up Pharoe Park statutory companies, which will be completed before 30 June 2017.

It should however 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.

Resultantly, Pharoe Park Housing Company (SOC) Ltd is considered not to be a going concern as at 30 June 2016.

The entity therefore transferred all of its business, assets and liabilities to Germiston Phase II Housing Company (SOC) Ltd, registration number 2000/007937/07 on 30 June 2016 as required by the Special Resolution taken by its sole shareholder, Ekurhuleni Metropolitan Municipality.

The transfer was done at a nominal value of R1-00.

The registration of all assets, such as immovable property, cessation of creditors, etc. in the name of Germiston Phase II Housing Company (SOC) Limited is in process and expected to be completed within 3-6 months after the transfer date recognized in the annual financial statements.

All control, rights and obligations to all 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 Pharoe Park from that date.

The transfer of the assets and liabilities to Germiston Phase II Housing Company resulted in a net loss of R 19 625 880.

The consolidation of the companies represents a transfer of functions of entities under common control. All of the company's business, assets and liabilities were transferred at carrying values in terms of GRAP 105.

The full financial effect of the transfer of functions to Germiston Phase II Housing Company (SOC) LTD in the annual financial statements of Pharoe Park is summarised as follows:

28. GOING CONCERN AND CONSOLIDATION OF COMPANIES (TRANSFER OF FUNCTIONS) (continued)

ASSETS	Closing Balance as at 30 June 2016 before transfer of functions	Balance transferred out	Total
Inventories	115 175	(115 175)	-
Loans to economic entities	14 742 221	(14 742 221)	-
Current tax receivables	444 288	(444 288)	-
Receivables from exchange transactions	158 900	(158 900)	-
Consumer debtors	407 543	(407 543)	-
Cash and cash equivalents	1 459 741	(1 459 741)	-
Investment property	15 424 235	(15 424 235)	-
Property, plant and equipment	215 169	(215 169)	-
	32 967 272	**(32 967 272)**	**-**

LIABILITIES	Closing Balance as at 30 June 2016 before transfer of functions	Balance transferred out	Total
Loans from economic entities	(10 733 138)	10 733 138	-
Trade and other payables from exchange transactions	(989 732)	989 732	-
Provisions	(192 683)	192 683	-
Tenants' Deposits	(1 425 839)	1 425 839	-
	(13 341 392)	**13 341 392**	**-**

ACCUMULATED SURPLUS	Accumulated surplus	Total
Net loss transferred through accumulated surplus	19 625 880	19 625 880
	19 625 880	**19 625 880**

	2016	2015

29. FRUITLESS AND WASTEFUL EXPENDITURE

Interest: Ekurhuleni Metropolitan Municipality	150	150
Condoned	(150)	-
Interest: Ekurhuleni Metropolitan Municipality	149	-
	149	**150**

The interest incurred on late payment of municipal charges occurred between July 2015 and June 2016.

The above amounts are unlikely to be recovered and will be presented to the board for condonation after year end.

30. IRREGULAR EXPENDITURE

Opening balance	2 007 308	1 066 658
Add: Irregular Expenditure - current year	303 783	940 650
	2 311 091	**2 007 308**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015

30. IRREGULAR EXPENDITURE (continued)

ANALYSIS OF EXPENDITURE AWAITING CONDONATION PER AGE CLASSIFICATION

	2016	2015
Current year	303 783	940 650
Prior years	2 007 308	1 066 658
	2 311 091	**2 007 308**

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	1 215 133
Procurement process not followed : quotations not obtained		29 200
		1 244 333

An amount of R1 066 658 relates to a Bid awarded to Ikageng Co-operative without following competetive bid process for the amount of R720 000 and payments to the value of R346 658 made to AMMM Attorneys in excess of the contract amount .

31. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

AUDIT FEES

	2016	2015
Opening balance	-	28 486
Current year fee	269 761	298 968
Amount paid - current year	(269 761)	(327 454)
	-	-

32. FINANCIAL INSTRUMENTS DISCLOSURE

CATEGORIES OF FINANCIAL INSTRUMENTS

30 JUNE 2015

FINANCIAL ASSETS

	At amortised cost
Loans to economic entities	11 190 084
Trade and other receivables from exchange transactions	157 883
Consumer debtors	1 066 299
Cash and cash equivalents	5 264 513
	17 678 779

FINANCIAL LIABILITIES

	At amortised cost
Loans from economic entities	7 984 294
Trade and other payables from exchange transactions	669 214
Tenants deposits	1 417 249
	10 070 757

	2016	2015

32. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

FINANCIAL INSTRUMENTS IN STATEMENT OF FINANCIAL PERFORMANCE

30 JUNE 2016

	At amortised cost
Interest income (calculated using effective interest method) for financial instruments at amortised cost	292 160
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(27 256)
Impairment loss	(1 504 930)
	(1 240 026)

30 JUNE 2015

	At amortised cost
Interest income (calculated using effective interest method) for financial instruments at amortised cost	250 648
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(42 071)
Impairment loss	(1 501 590)
	(1 293 013)

33. 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 been adjusted by R30 143.

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	240 453	210 312	30 143

Statement of Financial Performance	**Balance as previously reported**	**Restated balance**	**Adjustment**
Interest: rental deposits	72 071	41 928	30 143

34. COMPARATIVE FIGURES

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

Recoveries included interest on outstanding balances charged. This should be reclassified to interest.

The effects of the reclassification are as follows:

34. COMPARATIVE FIGURES (continued)

STATEMENT OF FINANCIAL PERFORMANCE - EXTRACT

	Comparative figures previously reported	Reclassification	After reclassification
Recoveries	2 443 741	(114 495)	2 329 246
Interest received	139 153	114 495	253 648
Total	**2 582 894**	**-**	**2 582 894**

35. 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 R 430 712.

There is no impact on the cash flow statement.

36. TAXATION

MAJOR COMPONENTS OF THE TAX EXPENSE

CURRENT		
Local income tax - current period	14 235 814	-

RECONCILIATION OF THE TAX EXPENSE

Reconciliation between accounting surplus and tax expense.

Accounting surplus	15 123 017	642 478
Tax at the applicable tax rate of 28% (2015: 28%)	4 234 445	22 281
TAX EFFECT OF ADJUSTMENTS ON TAXABLE INCOME		
Permanent differences (Grants received)	(5 720 428)	(490 000)
Temporary differences	3 950 896	467 719
CGT	13 901 171	-
Utilisation of tax losses	(2 130 270)	-
	14 235 814	**-**

No provision was made in 2015 for tax, as the entity had a taxable loss. The estimated taxable loss available for set off against future taxable income is R - (2015: R7 608 111).

37. 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

38. CURRENT TAX RECEIVABLE

Current tax for the year recognised in surplus or deficit	(14 235 814)	-
Provisional tax paid	14 680 102	-
Transfer of functions out	(444 288)	-
	-	**-**