GERMISTON PHASE II HOUSING COMPANY (SOC) LTD T/A EKURHULENI HOUSING COMPANY

(REGISTRATION NUMBER 2000/007937/07)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 September 2017

GENERAL INFORMATION

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Social Housing Institution
DIRECTORS	F Segole (Non-Executive Director) L Netshitenzhe (Non-Executive Director) A Pillay (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)
REGISTERED OFFICE	Hanover building Cnr Hendrick Potgieter & 7th Avenue Edenvale
BUSINESS ADDRESS	Hanover building Cnr Hendrick Potgieter & 7th Avenue Edenvale
POSTAL ADDRESS	P O Box 1245 Germiston 1400
CONTROLLING ENTITY	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA Bank Limited
AUDITORS	Auditor General SA
SECRETARY	Adv Kgabo Sebola
COMPANY REGISTRATION NUMBER	2000/007937/07

CONTENTS

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

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

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

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

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

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

The annual financial statements set out on pages 9 to 50, which have been prepared on the going concern basis, were approved by the board on 30 September 2017 and were signed on its behalf by:

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

Tuesday, 29 August 2017

DIRECTOR'S REPORT

The directors submit their report for the year ended 30 June 2017.

1. INCORPORATION

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

2. REVIEW OF ACTIVITIES

MAIN BUSINESS AND OPERATIONS

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

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

3. GOING CONCERN

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

The shareholder approved grants of R18 147 435 to Phase II Housing Company (SOC) Ltd for the 2016/17 financial year.

At 30 June 2017, the entity had an accumulated surplus of R83 452 388 and that the entity's total assets exceed its liabilities by R83 452 388.

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

We draw attention to note 33 in the Annual Financial Statements, Going Concern and Consolidation of Companies. On 30 June 2016 the business, assets and liabilities of Ekurhuleni Development Company (SOC) Ltd and Pharoe Park Housing Company (SOC) Ltd were transferred to Germiston Phase II Housing Company (SOC) Ltd in terms of a shareholder resolution, in line with GRAP 105

4. SUBSEQUENT EVENTS

The Board of Directors are not aware of any matter or circumstances arising since the end of the financial year that requires adjustments to or disclosure in the financial statements.

5. ACCOUNTING POLICIES

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

6. CONTRIBUTIONS FROM OWNERS

The entity was incorporated with an authorised share capital of 1,000 ordinary shares of R1 each of which 100 were issued at par value.

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

Therefore at 30 June 2017 the Ekurhuleni Metropolitan Municipality held 100 % of the issued shares.

DIRECTOR'S REPORT

7. NON-CURRENT ASSETS

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

8. DIRECTORS

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

Name	Nationality
F Segole (Non-Executive Director)	South African
L Netshitenzhe (Non-Executive Director)	South African
A Pillay (Executive Director)	South African
K Maithufi (Non-Executive Director)	South African
A Makhado (Non-Executive Director)	South African
M Ngobeni (Non-Executive Director)	South African
T Limako (Non-Executive Director)	South African
L Vutula (Non-Executive Director)	South African
Z Nkamana (Non-Executive Director)	South African
D Dlamini (Executive Director)	South African

DIRECTOR'S REPORT

9. SECRETARY

The secretary of the entity is Adv Kgabo Sebola of:

Business address

Hanover building
Cnr Hendrick Potgieter & 7th Avenue
Edenvale
1400

Postal address

P O Box 1245
Germiston
1400

10. CORPORATE GOVERNANCE

GENERAL

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

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

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

BOARD OF DIRECTORS

The Board:
- ensure that the entity compliance with its mandate and responsibilities including, its plans and strategy;
- acknowledge its responsibilities as strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising:
  - 8 non-executive directors, all of whom are independent directors as defined in the Code; and
- has established a Board directorship continuity programme.

CHAIRPERSON AND CHIEF EXECUTIVE

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

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

REMUNERATION

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

BOARD MEETINGS

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

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

DIRECTOR'S REPORT

AUDIT COMMITTEE

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

INTERNAL AUDIT

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

11. CONTROLLING ENTITY

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

12. BANKERS

ABSA Bank Limited.

13. AUDITORS

Auditor General SA of South Africa.

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the entity has lodged with the Commissioner all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Adv Kgabo Sebola
Company Secretary

Johannesburg

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	3	-	115 175
Loans to related entities	4	420 000	5 035 811
Current tax receivable	5	-	1 053 942
Receivables from exchange transactions	6	1 938 539	452 721
VAT receivable		530 390	-
Consumer debtors	7	793 110	1 089 484
Cash and cash equivalents	9	20 468 752	19 027 246
		24 150 791	**26 774 379**
Non-Current Assets			
Investment property	10	132 074 739	47 858 107
Property, plant and equipment	11	2 499 252	1 149 010
Intangible assets	12	238 603	151 033
Deferred tax	13	-	27 088 609
		134 812 594	**76 246 759**
Total Assets		**158 963 385**	**103 021 138**
Liabilities			
Current Liabilities			
Current tax payable	5	19 042 206	-
Finance lease obligation	14	-	46 581
Deferred operating lease	42	80 683	-
Trade and other payables from exchange transactions	15	5 415 738	2 645 495
Provisions	16	2 694 115	1 741 909
Tenants Deposits	8	4 258 192	3 441 115
VAT Payable		(1 879)	330 168
		31 489 055	**8 205 268**
Non-Current Liabilities			
Unspent conditional grants and receipts	17	12 683 355	7 248 863
Deferred tax	13	31 338 587	-
		44 021 942	**7 248 863**
Total Liabilities		**75 510 997**	**15 454 131**
Net Assets		**83 452 388**	**87 567 007**
Contributions from owners	18	100	100
Reserves			
Accumulated Surplus - Recognised gain on transfer of functions- Pharoe Park		19 625 880	19 625 880
Accumulated Surplus - Recognised loss on transfer of functions - EDC		(760 532)	(760 532)
Accumulated surplus		64 586 940	68 701 559
Total Net Assets		**83 452 388**	**87 567 007**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2017	2016
Revenue			
Rental of facilities and equipment		28 222 722	15 522 536
Retail rental		54 799	-
Recoveries	20	4 034 127	3 497 607
Other income	21	352 363	77 722
Interest received	22	1 523 022	1 593 624
Government grants & subsidies		99 813 138	19 826 170
Total revenue		**134 000 171**	**40 517 659**
Expenditure			
Employee related costs	23	(19 348 064)	-
Remuneration of non-executive directors		(1 529 000)	-
Administration	24	-	(13 176 120)
Depreciation and amortisation		(2 162 221)	(590 368)
Impairment on Loans	27	(4 907 393)	-
Finance costs	25	(5 205 629)	(46 862)
Lease rentals on operating lease		(538 435)	-
Impairment of Consumer Debtors	26	(2 872 457)	(3 107 221)
Repairs and maintenance	28	(6 741 089)	(3 307 734)
General Expenses	29	(21 331 344)	(8 204 013)
Total expenditure		**(64 635 632)**	**(28 432 318)**
Operating surplus		**69 364 539**	**12 085 341**
Loss on disposal of assets and liabilities		(30 213)	-
Surplus before taxation		**69 334 326**	**12 085 341**
Taxation	30	73 448 945	(26 719 981)
(Deficit) surplus for the year		**(4 114 619)**	**38 805 322**
ATTRIBUTABLE TO:			
Owners of the controlling entity		(4 114 619)	38 805 322
Non-controlling interest		-	-
		(4 114 619)	**38 805 322**

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Contributions from owners	Share premium	Total share capital	Accumulated Surplus - Transfer of functions in: Pharoe Park Housing Company	Accumulated Surplus - Transfer of functions in: Ekurhuleni Development Company	Total addition to Accumulated Surplus - Transfers of functions in	Accumulated surplus	Total net assets
Balance at 01 July 2015	**108**	**3 999 992**	**4 000 100**	**-**	**-**	**-**	**29 896 237**	**33 896 337**
Changes in net assets								
Surplus for the period	-	-	-	-	-	-	38 805 322	38 805 322
GPF Shares paid	(8)	(3 999 992)	(4 000 000)	-	-	-	-	(4 000 000)
Gains (losses) from mergers or transfer of functions between entities under common control	-	-	-	19 625 880	(760 532)	18 865 348	-	18 865 348
Total changes	(8)	(3 999 992)	(4 000 000)	19 625 880	(760 532)	18 865 348	38 805 322	53 670 670
Opening balance as previously reported	100	-	100	19 625 880	(760 532)	18 865 348	68 701 559	87 567 007
Balance at 01 July 2016	**100**	**-**	**100**	**19 625 880**	**(760 532)**	**18 865 348**	**68 701 559**	**87 567 007**
Changes in net assets								
Deficit for the period	-	-	-	-	-	-	(4 114 619)	(4 114 619)
Total changes	-	-	-	-	-	-	(4 114 619)	(4 114 619)
Balance at 30 June 2017	**100**	**-**	**100**	**19 625 880**	**(760 532)**	**18 865 348**	**64 586 940**	**83 452 388**
Note(s)	18	18	18					

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Customers		23 684 412	13 114 942
Grants		26 559 083	16 281 500
Interest income		1 053 283	1 386 485
Other receipts		4 852 170	3 782 468
		56 148 948	34 565 395
Payments			
Employee related costs		(19 279 127)	-
Suppliers		(26 736 900)	(11 233 648)
Finance costs		(107 171)	(46 862)
Other payments		-	(13 176 120)
Taxation		(20 000)	-
		(46 143 198)	(24 456 630)
Net cash flows from operating activities	31	**10 005 750**	**10 108 765**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(1 910 604)	(145 279)
Proceeds from sale of property, plant and equipment	11	(1)	-
Purchase of investment property	10	(6 872 941)	(22 800)
Purchase of other intangible assets	12	(259 612)	-
Loans to economic entities		(291 582)	(1 435 326)
Work in progress		-	(10 531 500)
Net cash flows from investing activities		**(9 334 740)**	**(12 134 905)**
Cash flows from financing activities			
Reduction of share capital	18	-	(4 000 000)
Receipts/(repayment) of deposits charged		817 077	56 077
Finance lease payments		(46 581)	-
Net cash flows from financing activities		**770 496**	**(3 943 923)**
Net increase/(decrease) in cash and cash equivalents		**1 441 506**	**(5 970 063)**
Cash and cash equivalents at the beginning of the year		19 027 246	23 122 384
Transfer of functions in-Ekurhuleni Development Company (SOC) LTD		-	415 184
Transfer of functions in-Pharoe Park Housing Company (SOC) LTD		-	1 459 741
Cash and cash equivalents at the end of the year	9	**20 468 752**	**19 027 246**

Statement of Comparison of Budget and Actuals

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June 2017											
Financial Performance											
Transfer from Unpent grant-NHF	-	-	-	-		-	2 808 544		2 808 544	DIV/0 %	DIV/0 %
Transfers recognised - Capital allocation in kind	-	-	-	-		-	78 688 546		78 688 546	DIV/0 %	DIV/0 %
Interest received	1 806 006	-	1 806 006	-		1 806 006	1 523 022		(282 984)	84 %	84 %
Transfers recognised - operational	3 500 000	14 816 048	18 316 048	-		18 316 048	18 316 048		-	100 %	523 %
Other own revenue	41 000 022	-	41 000 022	-		41 000 022	32 664 011		(8 336 011)	80 %	80 %
Total revenue (excluding capital transfers and contributions)	**46 306 028**	**14 816 048**	**61 122 076**	**-**		**61 122 076**	**134 000 171**		**72 878 095**	**219 %**	**289 %**
Employee costs	(14 196 759)	(3 456 000)	(17 652 759)	-	-	(17 652 759)	(19 348 064)	-	(1 695 305)	110 %	136 %
Remuneration of non executive directors	(989 230)	(540 000)	(1 529 230)	-	-	(1 529 230)	(1 529 000)	-	230	100 %	155 %
Impairment of consumer debtors	(3 322 120)	450 000	(2 872 120)			(2 872 120)	(2 872 457)	-	(337)	100 %	86 %
Depreciation and asset impairment	(1 252 672)	(5 358 000)	(6 610 672)			(6 610 672)	(7 069 614)	-	(458 942)	107 %	564 %
Finance charges	(70 886)	-	(70 886)	-	-	(70 886)	(5 205 629)	-	(5 134 743)	7 344 %	7 344 %
Other expenditure	(25 913 230)	(5 912 048)	(31 825 278)	-	-	(31 825 278)	(28 641 081)	-	3 184 197	90 %	111 %
Total expenditure	**(45 744 897)**	**(14 816 048)**	**(60 560 945)**	**-**	**-**	**(60 560 945)**	**(64 665 845)**	**-**	**(4 104 900)**	**107 %**	**141 %**
Surplus/(Deficit)	**561 131**	**-**	**561 131**	**-**		**561 131**	**69 334 326**		**68 773 195**	**12 356 %**	**12 356 %**
Taxation	-	-	-	-		-	73 448 945		73 448 945	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**561 131**	**-**	**561 131**	**-**		**561 131**	**(4 114 619)**		**(4 675 750)**	**(733)%**	**(733)%**

Statement of Comparison of Budget and Actuals

Comments

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

1. Revenue
Income received from rental of facilities continues to be under budgeted amount as the budget was based on a hundred percent billing including block E. The refurbishment of Block E was only completed in June 2017, while the rental income for this units was budgeted to be received earlier in the year. The budgeted amount for 18 units was therefore not billed during financial year. 112 units for Delvile Ext 9 were only completed in the fourth quarter of 2016/17 financial year and were not yet occupied by the end of the financial year. 144 units were completed in March 2017 for Phase 1 of Chris Hani Village. Delay in the completion and tenanting of this units impacted negatively on the revenue and interest received budget variances. Transfer of rental stock from EMM was also budgeted for 2016/17, however the transfer did not materialise as anticipated.

The variance in other revenue received shows under recovery of R1,722 million on sewerage, water, refuse, legal fees and letters of demand charges, and a further shortfall on rental of facilities amounted to R6, 585 million.

An amount of R6 990 million was recovered from EMM through the adjustment budget, this relates to the refurbishment of Block E. The full amount was allocated to operational budget. A further adjustment budget of R 7 826 million was received from EMM for operational expenses. Therefore the total adjustment budget amounts to R 14 816 million

Capital allocation in kind from Ekurhuleni Metropolitan Municipality (EMM) to the value of R78 688 546 was recognised as income at the end of the financial year. The amount recognised relates to the capitalised cost of the social housing building that has been transferred to EHC by EMM.

An amount of R 2 977 1577 was transferred from an unspent grant allocation to defray expenses relating social housing projects. A VAT portion of the grants was accounted for to the value of (R168 613),which is included in the variance of R2 808 544

2. Employee Costs

An R3 456 million was allocated to employees costs from the adjustment budget received during the year. The allocation was due to new positions which were filled in terms of the revised operating model and organisational structure. Implementation of job grading results resulted in an increase in basic salaries and therefore increased the provision for untaken leave and performance bonuses. This increase resulted in the overspending of the personnel costs budget.

3. Remuneration of Non Executive Directors

Monthly retainer for the board members has been provided for in the adjustment budget, hence the upward adjustment of R540 000.

4. Depreciation and asset impairment

An overspending on Depreciation is due to additions in investment property. Additions to the value of R78 688 546 depreciated by R336 312.

Lethabong Housing Instutute (LHI) has been liquidated and according to the liquidator an estimated amount of R4 907 million may not be recovered, therefore this has been written-off. This has resulted in an overspending of the budget. An amount of R 5 358 000 was allocated from the adjustment budget received during the year in order to cover the impairement of loans and depreciation on investment property.

5. Finance Costs

Interest and penalties on underpayment of 2017 second provisional tax payment amounted to R5,1 million and has therefore resulted in overspending of the budget as it was not provided for. Provision has been made for interest to the amount of R100 085 in respect of tenants rental deposits. This has exceeded the budgeted amount for interest by 51% due to a higher debtors balance than anticipated.

6. Other expenditure

Statement of Comparison of Budget and Actuals

VAT on management fees amounting to R2 314 640 was budgeted for the year to date. However the related expenditure was not realised due to the consolidation of EHC and Pharoe Park into Germiston Phase II Housing Company. No management fees were allocated in the books of EHC due to the consolidation. Furthermore, there is a adjustment budget amount of R2 082 million allocated to other expenditure item ,which relates to the expenditure recovered from EMM in respect of Block E professional fees. This additional amount was received in the fourth quarter.

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

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

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

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

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

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

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:

• **Financial assets at amortised costs**

The entity assesses its financial assets at amortised cost 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 impairment for financial assets at amortised cost 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.

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. All debtors of significant balances are tested for impairment on an individual basis by an age analysis of the outstanding balance and evaluation thereof through application of company approved policies and known factors that could influence outstanding balances.

• **Impairment of consumer debtors**

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

• Impairment of property, plant and equipment

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

• **Provisions, contingent liabilities and contingent assets**

Accounting Policies

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 a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

• Useful lives of property, plant and equipment and Investment property held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate.

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

• Budget information

A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

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 is property (land or a building, or part of a building, or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale 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 entity, 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

Accounting Policies

1.3 Investment property (continued)

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	33-50 years

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

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 is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 28).

1.5 Intangible assets

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

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

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

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

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

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

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

Internally generated goodwill is not capitalised as an intangible asset.

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

Item	**Useful life**
Computer software, internally generated	5-11 years

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

1.6 Financial instruments

a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

(i) the entity designates at fair value at initial recognition or

(ii) are held for trading.

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

Accounting Policies

1.6 Financial instruments (continued)

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.

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 are subject to an impairment review.

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. 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. 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).

Accounting Policies

1.6 Financial instruments (continued)

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 transferred asset and the associated liability.

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - 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.

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

Accounting Policies

1.7 Leases (continued)

Operating leases - lessee

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

1.8 Inventories

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

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.

Unsold properties are valued at cost. Direct costs are accumulated for each separately identifiable development.

1.9 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 in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential 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.

Accounting Policies

1.10 Impairment of 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.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.11 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 using the effective interest rate method.

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.

1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

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

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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 that are significant to the entity's operations and/or service delivery objectives are recognised as assets. The related revenue is recognised 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. If the services in-kind are not significant to the entity’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity shall disclose the nature and type of services in-kind received during the reporting period.

1.13 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

1.14 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.

1.15 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.

1.16 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.

1.17 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 period from 2016/07/01 to 2016/12/31. 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

1.18 Related parties

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

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

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

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

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

1.19 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.

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

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

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

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

1.21 Comparative figures

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

Accounting Policies

1.22 Taxes

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities.

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

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

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

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

Tax expenses.

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

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 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land	01 April 2019	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• 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	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact

3. Inventories

	2017	2016
Raw materials, components	-	115 175

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

4. Loans to/(from) related entities

Related entities

Lethabong Housing Company (SOC) Limited	5 327 393	5 035 811
Provision for Impairment on Loan	(4 907 393)	-
	420 000	**5 035 811**

Inter company loans are unsecured, interest free with no specific repayment terms.The recovery of R420 000 from the liquidation is expected to occur within 12 months from the reporting date.

Loans to related entities impaired

As of 30 June 2017, loans to related entities of R 5 327 393 (2016: R 5 035 811) were impaired by the amount of the provision of R 4 907 393 at 30 June 2017 (2016: R -.)

5. Current tax payable

Opening balance	1 053 942	-
Transfer of functions in - Tax receivable Pharoe Park Housing Company (SOC) Ltd	(454 288)	454 288
Transfer of functions in - Tax receivable Ekurhuleni Development Housing Company (SOC) Ltd	(640 266)	619 654
Securities tax payable	10 000	(10 000)
Transfer of functions in-Securities tax paid/(payable) Pharoe Park Housing Company (SOC) Ltd.	10 000	(10 000)
Current year tax payable	(19 385 767)	-
Current year interest and penalties payable	(5 098 457)	-
Transfer duty tax payable	(9 862 511)	-
Tax receivable: Pharoe Park Housing Company (SOC)Ltd	14 680 102	-
Tax receivable: Ekurhuleni Development Company (SOC) Ltd	645 039	-
	(19 042 206)	**1 053 942**

TAX RATE RECONCILIATION	**30 June 2017**	**%**	**30 June 2016**	**%**
(Loss)/Profit before tax	69 334 326	-	12 085 341	-
Tax on profit before tax at standard rate	19 413 611	28	3 383 895	28
Permanent differences: tax receivables	(14 226 529)	(21)	(3 004 878)	(25)
Investment property	9 862 511	14	-	-
Impairment of loans	1 374 070	2	-	-
SARS penalties and interest	1 427 568	2	-	-
Utilisation of assessed loss	(2 404 584)	(3)	-	-
Temporary differences: Investment property and PPE	50 735 202	73	(20 414 284)	(169)
Provisions	3 375 293	5	(2 782 059)	(23)
Assessible tax losses	3 892 266	6	(3 892 266)	(32)
Other	(463)	-	(10 389)	-
	73 448 945	**106**	**(26 719 981)**	**(221)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Receivables from exchange transactions

Deposits-Office rental	404 809	-
Staff Debtor	274 643	82 000
Related party receivables-EMM	103 931	817
Other receivables	360 712	21 693
Prepaid expenses	794 444	112 307
Other Debtors-Transfer of functions: EDC	-	77 004
Other Debtors-Transfer of functions: Pharoe Park	-	158 900
	1 938 539	**452 721**

Credit quality of trade and other receivables

The credit quality of trade and other receivable are assessed by using historical default rate. Trade and other receivables are categorised into three catergories namely,

(i) Low risk - the risk of defualting is low and the probability of defalting is also low,

(ii) Medium risk - the risk of defaulting is neutral and the probality of defaulting is also neutral.

(ii) High risk - the risk of defaulting is high and probability of them defaulting is also high

.

Trade and other receivables past due but not impaired

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

The ageing of these receivables is as follows:

Not more than three months	1 593 327	257 185
More than three months and not more than six months	103 931	-
Over 6 months	241 281	195 536

Trade and other receivables impaired

As of 30 June 2017, trade and other receivables of R 1 938 539 (2016: R 452 721) are considered not to be impaired and were not provided for.

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

7. Consumer debtors

Gross balances		
Housing rental	10 700 117	12 014 843
Less: Allowance for impairment		
Housing rental	(9 907 007)	(10 925 359)
Net balance		
Housing rental	793 110	1 089 484
Included in above is receivables from exchange transactions		
Housing rental	10 700 117	12 014 843
Net balance	**10 700 117**	**12 014 843**

Figures in Rand	2017	2016

7. Consumer debtors (continued)

Housing rental

Current (0 -30 days)	1 028 252	1 521 637
31 - 60 days	767 542	690 669
61 - 90 days	695 664	795 726
91 - 120 days	458 500	965 190
121< days	7 750 159	8 041 621
	10 700 117	**12 014 843**

Reconciliation of allowance for impairment

Balance at beginning of the year	(10 925 359)	(3 838 709)
Contributions to allowance	(2 872 455)	(3 107 221)
Debt impairment written off against allowance	3 890 807	805 346
Debtors impaiment -Transfer of fuctions in: Pharoe Park	-	(4 784 775)
	(9 907 007)	**(10 925 359)**

Consumer debtors collateral

The net balance of consumer debtors were enhanced in quality with tenants deposits held as collateral on amounts owing amounting to R 4 258 192 - (2016: R 3 441 115).

Credit quality of consumer debtors

Credit quality is the probability on the portfolio of consumers debtors that they may default in payments. This is determined using historical default rate. The portfolio of consumer debtors are categorised into three catergories namely,

(i) Low risk - the risk of defualting is low and the probability of defalting is also low,

(ii) Medium risk - the risk of defaulting is neutral and the probality of defaulting is also neutral.

(ii) High risk - the risk of defaulting is high and probability of them defaulting is also high.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 2 491 458 (2016: R 3 008 032) were past due but not impaired.

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

1 month past due	1 028 252	1 521 637
2 months past due	767 542	690 669
3 months past due	695 664	795 726

8. Tenants deposits

Deposits Charged	4 258 192	3 441 115

The tenants' deposits consists of two months rental paid by the tenants at the inception of the rental lease. The deposits are held in an interest bearing account and 2.5% interest on deposit held is allocated to tenants on termination of lease. The deposit and related interest is offset against any cost of damages to rental units and the rental amounts due on termination of lease.

Figures in Rand	2017	2016

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	221	1 792
Short-term tenant deposits	3 404 621	3 256 720
Unspent grant - Restricted cash	13 140 667	7 248 863
Bank balances	3 923 243	7 662 779
Short-term deposits - surplus cash	-	857 092
	20 468 752	**19 027 246**

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Current account - 4052348660	1 184 520	7 102 625	4 308 708	1 184 520	7 102 625	4 308 708
ABSA Call account - 4078340070	2 032 277	1 943 741	1 870 165	2 032 277	1 943 741	1 870 165
ABSA Call account - 2071747815	4 678 197	7 248 863	12 383 324	4 678 197	7 248 863	12 383 324
ABSA Call account - 2072805440	-	857 092	4 560 187	-	857 092	4 560 187
ABSA-current account-4055919492	581 158	413 392	-	581 158	413 392	-
ABSA- current account-4050383636	2 157 565	146 762	-	2 157 565	146 762	-
ABSA call account- 4078340151	1 372 343	1 312 979	-	1 372 343	1 312 979	-
Call 32 Day 676886622010	8 462 389	-	-	8 462 389	-	-
Total	**20 468 449**	**19 025 454**	**23 122 384**	**20 468 449**	**19 025 454**	**23 122 384**

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

Tenants deposits are seperately held in call accounts. Where the tenants defaults in rentals and the property is not restored to the condition given to the tenant, the tenants' deposit is used to cover the shortfall. In cases where the tenants is still occupying the unit an arragement plan is entered between the tenant and the landlord (EHC), to replenish the deposit.

Unspent conditional grants are restricted for social housing projects only.

Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	149 599 832	(17 525 093)	132 074 739	63 923 170	(16 065 063)	47 858 107

Reconciliation of investment property -30 June 2017

	Opening balance	Additions	Depreciation	Total
Investment property	47 858 107	85 676 662	(1 460 030)	132 074 739

Reconciliation of investment property - 30 June 2016

	Opening balance	Additions	Additions through transfer of functions / mergers	Other changes, movements	Depreciation	Total
Investment property	22 460 985	22 800	15 424 235	10 531 500	(581 413)	47 858 107

-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

10. Investment property (continued)

Details of property

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

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

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

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

On 30 June 2016 Germiston Phase II Housing Company (SOC) Ltd took control of the investment properties of Pharoe Park Housing Company in terms of the written consolidation agreement.The properties were registered in the name of Germiston Phase II Housing Company in January 2017. The details of these properties are as follows:

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

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

ERF 808 Germiston-Chris Hani property. The company took control of the property during April 2017. The property is in the proces of beign registered in the name of Germiston Phase II Housing Company.

Work in Progress:

Work in Progress is the transfer duties tax that was paid before year end in respect of the transfer of the Pharoe Park Housing Company (SOC) Ltd properties to Germiston Phase II Housing Company (SOC) Ltd.

Details of property

Investment property at cost- Airport Park and Delvile

- Land	1 686 000	1 686 000
- Buildings	29 070 639	29 070 639
- Work in progress	-	10 531 500
- Capitalised expenditure	10 666 333	134 833
	41 422 972	**41 422 972**

Investment property at cost- Pharoe Park

-Land	1 995 063	1 995 063
- Buildings	19 548 641	19 548 641
-Capitalised expenditure	7 806 635	933 694
	29 350 339	**22 477 398**

Investment Property at cost-Chris Hani Village

-Land	137 975	-
-Buildings	78 688 546	-
	78 826 521	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	728 971	(262 586)	466 385	490 951	(205 094)	285 857
Motor vehicles	250 790	(171 749)	79 041	250 790	(158 454)	92 336
Office equipment	257 060	(143 740)	113 320	319 123	(150 481)	168 642
IT equipment	1 001 775	(325 210)	676 565	505 002	(196 621)	308 381
Other equipment	1 481 930	(317 989)	1 163 941	404 404	(110 610)	293 794
Total	**3 720 526**	**(1 221 274)**	**2 499 252**	**1 970 270**	**(821 260)**	**1 149 010**

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	285 857	238 020	-	(57 492)	466 385
Motor vehicles	92 336	-	-	(13 295)	79 041
Office equipment	168 642	55 938	-	(111 260)	113 320
IT equipment	308 381	517 400	(10 290)	(138 926)	676 565
Other equipment	293 794	1 099 245	(19 922)	(209 176)	1 163 941
	1 149 010	**1 910 603**	**(30 212)**	**(530 149)**	**2 499 252**

Reconciliation of property, plant and equipment - 30 June 2016

	Opening balance	Additions	Additions through transfer of functions-EDC	Additions through transfer of functions-Pharoe Park	Depreciation	Total
Furniture and fixtures	-	-	285 857	-	-	285 857
Motor vehicles	-	-	92 336	-	-	92 336
Office equipment	-	-	110 943	57 699	-	168 642
IT equipment	-	-	308 381	-	-	308 381
Other equipment	-	145 279	-	157 470	(8 955)	293 794
	-	**145 279**	**797 517**	**215 169**	**(8 955)**	**1 149 010**

Assets subject to finance lease (Net carrying amount)

	2017	2016
Office equipment	-	68 537

There were no imparement of property, plant and equipment during the period under review (30 June 2016-R0)

12. Intangible assets

	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	555 374	(316 771)	238 603	295 762	(144 729)	151 033

Figures in Rand	2017	2016

12. Intangible assets (continued)

Reconciliation of intangible assets - 30 June 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	151 033	259 612	(172 042)	238 603

Reconciliation of intangible assets - 30 June 2016

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

13. Deferred tax

Deferred tax liability

	2017	2016
Opening balance	27 088 609	-
Deferred tax asset - transfer of functions in: EDC	-	358 628
Deferred tax from origination of temporary differences	(27 666 344)	26 729 981
Deferred tax movement from reversals of temporary differences	(30 760 852)	-
Total deferred tax (liability)/asset	**(31 338 587)**	**27 088 609**

Reconciliation of deferred tax asset / (liability)

	2017	2016
At beginning of year	27 088 609	-
Leave Provision - Transfer of functions in: EDC	-	147 651
Leave provision - current year	234 769	-
Performance Bonus Provision - Transfer of functions in: EDC	-	210 977
Performance Bonus Provision - Current year	10 975	-
Investment Property - Buildings: Pharoe Park (Recognised on transfer date)	-	19 819 866
Investment Property - Buildings: Pharoe Park	(23 268 011)	-
Investment Property - Buildings: Germiston Phase II	(5 021 013)	594 418
Investment property-buildings: Chris Hani	(21 938 625)	-
Property plant and equipment	(221 693)	-
Operating lease liability	22 591	-
Provision for interest on deposit : Pharoe Park (Recognised on transfer date)	-	53 951
Provision for interest on deposit : Germiston Phase II	20 874	75 155
Assessable loss : Germiston Phase II	(3 892 266)	3 892 266
Provision for bad debts	(4 374 797)	2 294 325
	(31 338 587)	**27 088 609**

Recognition of deferred tax liability

The entity has a net deferred tax liability.

The company has raised the deferred tax liability as management believes that sufficient future taxable surpluses will be available to pay the deferred tax liability.

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

Included in the deferred tax balance above is a material movement in the deferred tax asset, Due to SARS allowing the company to treat the transfer of the assets from Pharoe Park to Germiston Phase II at transfer values for tax purposes, Due to the receipt of the Chris Hani buildings at no consideration, full utilisation of the previous year's deferred tax loss and the raising of the 25% bad debt allowance for SARS.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Finance lease obligation

Minimum lease payments due		
- within one year	-	50 516
	-	50 516
less: future finance charges	-	(3 935)
Present value of minimum lease payments	**-**	**46 581**
Present value of minimum lease payments due		
- within one year	-	46 581
-Transfer of functions	-	(46 581)
	-	**-**

It is entity policy to lease certain photocopiers under finance lease.

The average lease term is 1-3 years and the average effective borrowing rate was 18% (30 June 2016: 18%).

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

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

15. Trade and other payables from exchange transactions

Trade payables	371 313	132 824
Payroll creditors	1 031	46 645
Accrued 13th cheque bonus	884 233	163 955
Accrued expense-Suppliers	2 402 480	123 518
Accrued Directors fees: Transfer of functions EDC	-	104 000
Other payables	1 649 303	1 995 479
Unallocated receipts	107 378	36 646
Unallocated receipts-Transfer of functions: Pharoe Park	-	42 428
	5 415 738	**2 645 495**

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

16. Provisions

Reconciliation of provisions - 30 June 2017

	Opening Balance	Additions	Utilised during the year	Total
Leave Pay Provision	527 324	1 086 305	(247 844)	1 365 785
Performance Bonus Provision	753 491	704 932	(665 737)	792 686
Provision for interest on tenant's deposits	461 094	100 085	(25 535)	535 644
	1 741 909	**1 891 322**	**(939 116)**	**2 694 115**

Reconciliation of provisions - 30 June 2016

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

16. Provisions (continued)

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

A provision for leave is recognised for leave due to employees at year end. The provision for leave provision is calculated by multiplying the number of leave days due to each employee by a daily rate based on the basic salary. The provision is expected to realise within the following financial year when employees request leave to be paid out or taken.

Performance bonus provision is recognised based on management incentives, past practice, current market related benchmarks, as well as entity specific goals. The provision is expected to realise within the following financial year upon finalisation of the performance review of managerial staff.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2017	2016
Unspent conditional grants and receipts		
Unspent grant: NHF	12 683 355	7 248 863

Movement during the year

	2017	2016
Balance at the beginning of the year	7 248 863	10 793 533
Income recognition during the year- NHF	(2 977 157)	(3 544 670)
SHRA capital restructuring grant received during the year	8 411 649	-
	12 683 355	**7 248 863**

The unspent Government grant reflected refers to the non completion of the refurbishment of social housing building and other pipe-line social housing projects. The grant was allocated from National Housing Fund and Social Housing Regulatory Authority for social housing projects.

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

18. Contributions from owners

	2017	2016
Authorised		
1000 Ordinary shares of par value of R1 each	1 000	1 000
Issued		
100 Ordinary Shares Issued to Ekurhuleni Metropolitan Municipality	100	100

The Ekurhuleni Metropolitan Municicpality now owns 100% of the entity's shares.

19. Revenue

	2017	2016
Rental from investment properties	28 222 722	15 522 536
Agency services	54 799	-
Recoveries	4 034 127	3 497 607
Other income	352 363	77 722
Interest received - investment	1 523 022	1 593 624
Government grants & subsidies	99 813 138	19 826 170
	134 000 171	**40 517 659**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Revenue (continued)

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

Rental of facilities and equipment	28 222 722	15 522 536
Agency services	54 799	-
Recoveries	4 034 127	3 497 607
Other income	352 363	77 722
Interest received - investment	1 523 022	1 593 624
	34 187 033	**20 691 489**

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

Transfers received (Ekurhuleni Metropolitan Municipality)

Government grants & subsidies	99 813 138	19 826 170

20. Recoveries

Legal fees	20 521	851 360
Refuse	1 177 069	708 299
Damage and repairs	39 196	180 194
Sewerage	878 032	526 025
Water	1 919 309	1 231 729
	4 034 127	**3 497 607**

21. Other income

Lease administration fees	197 425	13 350
Letters of demand charged	101 736	64 372
Tender administration fees	53 202	-
	352 363	**77 722**

22. Interest received

Bank	1 057 342	1 386 485
Interest charged on overdue accounts-Tenants	465 680	207 139
	1 523 022	**1 593 624**

The amount included in Investment revenue arising from exchange transactions amounted to R 1 057 342 (30 June 2016: R1 386 485).

23. Employee related costs

Basic	13 906 396	-
Performance bonus	1 145 514	-
Medical aid - company contributions	784 831	-
UIF	55 770	-
SDL	165 089	-
Leave pay provision charge	1 086 305	-
Provident fund	1 016 675	-
Cellphone allowance	149 500	-
Overtime payments	118 681	-
13th Cheques	710 903	-
Travel allowance	208 400	-
	19 348 064	**-**

Figures in Rand	2017	2016

23. Employee related costs (continued)

REMUNERATION OF CHIEF EXECUTIVE OFFICER

Basic	1 768 468	-
Performance Bonus	198 174	-
Contribution to UIF, Medical and Pension Fund	189 024	-
Other	8 645	-
	2 164 311	**-**

REMUNERATION OF CHIEF FINANCIAL OFFICER

Basic	1 262 169	-
Travel Allowance	110 000	-
Performance Bonuses	146 706	-
Contributions to UIF, Medical and Pension Funds	140 563	-
Acting Allowance	6 314	-
Other	4 600	-
	1 670 352	**-**

REMUNERATION OF NON EXECUTIVE DIRECTORS

L Vutula	199 000	-
F Segole	206 000	-
K Maithufi	198 000	-
L Netshifhefhe	190 000	-
M Ngobeni	182 000	-
TA Limako	182 000	-
A Makhado	182 000	-
Z Nkamana	190 000	-
	1 529 000	**-**

Comparative figures relating to remuneration of employees and non-executive directors were transferred through the accumulated surplus to Germiston Phase II Housing Company from Ekurhuleni Development Company as a result of consolidation of companies.

24. Administrative expenditure

Administration and management fees - related party	-	13 176 120

Management fees of R13 176 120 were paid to Ekurhuleni Development Company as at 30 June 2016. As from 01 July 2016 no management fees were payable due to transfer of function from EDC to Germiston Phase II Housing Company.

25. Finance costs

Trade and other payables	5 105 544	14
Interest paid on tenant's deposits	100 085	46 848
	5 205 629	**46 862**

26. Impairment-Consumer Debtors

Contributions to debt impairment provision	(1 018 350)	2 301 875
Bad debts written off - Consumer debtors	3 890 807	805 346
	2 872 457	**3 107 221**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

27. Impairment on Loans

Impairments

Loans to related parties: Lethabong Housing Institute	4 907 393	-

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Lethabong Housig Company (SOC) Limited has been liquidated and an amount of R4 907 292 has been provided as impairment as at 30 June 2017. The recoverable amount of the asset was based on its fair value less costs to liquidate.

28. Repairs and maintenance

Planned maintenance	2 846 187	1 638 827
General repairs	3 894 902	1 668 907
	6 741 089	**3 307 734**

Repairs and maintenance are direct operating expenses, which consists of maintenance of geysers, plumbing,painting, electrical and building maintenance. The expenses are arising from investment property that generated rental revenue during the financial year.

29. General expenses

Advertising	209 587	-
Assessment rates & municipal charges	595 055	405 126
Auditors remuneration	1 332 749	305 460
Bank charges	538 507	253 922
Cleaning	1 050 970	342 453
Consulting and professional fees	3 988 869	1 131 404
Debt collection	159 374	20 394
Insurance	131 482	303 587
Conferences and seminars	227 649	-
Gardening	-	16 000
Motor vehicle expenses	152 008	-
Pest control	14 011	13 900
Placement fees	654 495	-
Printing and stationery	818 025	-
Security	3 436 330	1 151 184
Software licenses	885 661	-
Telephone and fax	564 557	1 089
Training	172 728	-
Travel and accomodation- local	202 122	-
Electricity	112 188	478 615
Sewerage and waste disposal	390 244	280 853
Water	3 330 945	2 514 667
Refuse	1 692 250	985 359
Bursaries	339 394	-
Catering and Refreshments	154 229	-
Other expenses	177 915	-
	21 331 344	**8 204 013**

30. Taxation

Major components of the tax expense (income)

Deferred Tax	58 427 196	(26 729 981)
Local income tax - current period	5 159 238	-
Securities transfer tax	-	10 000
Transfer duty tax	9 862 511	-
	73 448 945	**(26 719 981)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

31. Cash generated from operations

(Deficit) surplus	(4 114 619)	38 805 322
Adjustments for:		
Depreciation	2 162 221	590 368
Gain on sale of assets and liabilities	30 213	-
Impairment deficit	4 907 393	-
Debt impairment	2 872 457	3 107 221
Movements in operating lease assets and accruals	80 683	-
Movement in provisions	952 206	(18 480)
Movement in deferred tax	58 427 196	(26 729 981)
Movement in tax (securities transfer duty payable)	20 096 148	10 000
Capital Grants received in kind	(78 688 546)	-
Changes in working capital:		
Receivables from exchange transactions	(2 017 025)	(7 552)
Consumer debtors	(2 576 082)	(2 407 594)
Trade and other payables from exchange transactions	2 439 013	304 131
Unspent conditional grants and receipts	5 434 492	(3 544 670)
	10 005 750	**10 108 765**

32. Related parties

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

Related party balances

Loan accounts - Owing (to) by related parties		
Lethabong Housing Institute (SOC) NPC	420 000	5 035 811
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Ekurhuleni Metropolitan Municipality	-	817

Related party transactions

Services provided by related parties		
Ekurhuleni Metropolitan Municipality	6 039 867	4 664 620
Grant in kind received-Chris Hani building		
Ekurhuleni Metropolitan Municipality	(78 688 546)	-
Administration fees paid to related parties		
Ekurhuleni Housing Company (SOC) Limited	-	13 176 120
Grants paid to (received from) related parties		
Ekurhuleni Metropolitan Municipality	(18 147 435)	(16 281 500)

33. 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 disclosed in note 4, cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

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.

Liquidity risk

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

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

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

The table below analyses the entity’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	-	12 683 355	-	-
Trade and other payables	5 496 420	-	-	-
Provision	2 694 115	-	-	-
Tenants deposits	4 258 192	-	-	-

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

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.

Interest on the current bank accounts may fluctuate based on the changes in the repo rate. The interest rate risk arises from long term borrowings, interest bearing account on cash borrowings and cash equievalent. EHC does not have the long term borrowings, however it is exposed to the risk on cash equivalents which relates to loss of interest income as a rusult of downward intereat rate.

33. Risk management (continued)

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 and trade debtors cositing of low income household consumer based. The risk is that they may not pay the consumer accounts when due. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Credit quality is the probability on the portfolio of consumers debtors that they may default in payments. This is determined using historical default rate. The portfolio of consumer debtors are categorised into three catergories namely,

(i) Low risk - the risk of defualting is low and the probability of defalting is also low,

(ii) Medium risk - the risk of defaulting is neutral and the probality of defaulting is also neutral.

(iii) high risk - the risk of defaulting is high and probability of them defaulting is also high.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to consumer debtors 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.

34. Going concern

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

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

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

The consolidation has prevented a duplication of functions and result in alignment with SHRA funding requirements. It also increased the solvency of Phase II Housing Company.

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

The registration of all assets, such as immovable property transferred to Germiston Phase II Housing Company has been completed. All control, rights and obligations of all the business' staff, assets and liabilities were however transferred to Germiston Phase II Housing Company on 30 June 2016, which assumed ownership of the business, assets and liabilities of EDC and Pharoe Park from that date.

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

The shareholder approved grants of R18 147 435 to Phase II Housing Company (SOC) Ltd for the 2016/17 financial year

At 30 June 2017, the entity had an accumulated surplus of RR83 452 388 and that the entity's total assets exceed its liabilities by R83 452 388 Management therefore foresees that the entity will continue as a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement, contingent obligations and commitments will occur in the ordinary course of business.

A summary of the consolidation of the balance sheets as per the 30 June 2016 balances are shown below:

34. Going concern (continued)

ASSETS	Germiston Phase II balances before transfer of functions	EDC balances - transfers of functions in	Pharoe Park balances - transfers of functions in	Elimination of inter-company loans and creation of resultant deferred tax asset	Germiston Phase II closing balances after transfer of functions
Inventories	-	-	115 175	-	115 175
Loans to economic entities	16 795 534	15 639 582	14 742 221	(42 141 526)	5 035 811
Current tax receivable	(10 000)	619 654	444 288	-	1 053 942
Trade and other receivable from exchange transactions	22 510	271 311	158 900	-	452 721
Consumer debtors	681 942	-	407 543	-	1 089 485
Cash and cash equivalents	17 152 321	415 184	1 459 741	-	19 027 246
Investment property	32 433 872	-	15 424 234	-	47 858 106
Property, plant and equipment	136 324	797 517	215 169	-	1 149 010
Intangible assets	-	151 033	-	-	151 033
Deferred tax	-	358 628	-	26 729 981	27 088 609
	67 212 503	**18 252 909**	**32 967 271**	**(15 411 545)**	**103 021 138**

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

NET ASSETS	Germiston Phase II balances before transfer of functions	EDC balances - transfers of functions in	Pharoe Park balances - transfers of functions in	Inter-company eliminations and creation of resultant deferred tax asset	Germiston Phase II balances after transfer of functions
Net transfer through accumulated surplus	41 971 578	(760 532)	19 625 880	26 729 981	87 566 907
Share cappital	100	-	-	-	100
	41 971 678	**(760 532)**	**19 625 880**	**26 729 981**	**87 567 007**

35. Fruitless and wasteful expenditure

Opening balance	6 425	-
Interest: Ekurhuleni Metropolitan Municipality	-	52 535
Interest and penalties on underpayment of second provisional tax payment	5 098 457	-
Condoned	-	(52 535)
Interest: transfer of functions -Pharoe Park	-	150
Condoned	-	(150)
Opening balance: EDC- transfer of functions	-	6 276
Opening balance: Pharoe Park- transfer of functions	-	149
	5 104 882	**6 425**

Interest and penalties on underpayment of the 2017 second provisional tax payment relates to a change in the way the grants are treated by SARS effective 01 January 2017, whereby all capital grants are taxable. The Chris Hani Property was transferred to EHC in April 2017, which required EHC to account for tax on the grant as per the new grant regulation.

36. Irregular expenditure

Opening balance	5 363 994	1 218 588
Add: Irregular Expenditure - current year	-	229 155
Add: Irregular Expenditure-Transfer of functions EDC- prior years	-	2 391 969
Add: Irregular Expenditure-Transfer of functions EDC- Prior years	-	27 914
Add: Irregular Expenditure-Transfer of functions Pharoe Park- prior years	-	1 192 585
Add: Irregular Expenditure-Transfer of functions Pharoe Park- current year	-	303 783
	5 363 994	**5 363 994**

Analysis of expenditure awaiting condonation per age classification

Current year	-	532 938
Prior years	5 363 994	4 831 056
	5 363 994	**5 363 994**

Mohamed Randera & Associates has been appointed by the board to review the forensic report on tender irregularity reported in the prior years, (2014/15 and 2015/16) relating to security services and to make recommendations to the board on proposed steps to be followed regarding this matter.

37. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	1 332 749	305 460
Amount paid - current year	(1 332 749)	(305 460)
	-	**-**

VAT

VAT receivable	530 390	-
VAT payable	(1 879)	330 168
	528 511	**330 168**

38. Financial instruments disclosure

Categories of financial instruments

30 June 2017

Financial assets

38. Financial instruments disclosure (continued)

	At amortised cost
Loans to economic entities	420 000
Trade and other receivables from exchange transactions	2 468 929
Consumer debtors	793 110
Cash and cash equivalents	20 468 752
	24 150 791

Financial liabilities

	At amortised cost
Trade and other payables from exchange transactions	24 538 626
Tenants deposits	4 258 192
Unspent conditional Grant	12 683 355
	41 480 173

30 June 2016

Financial assets

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

Financial liabilities

	At amortised cost
Trade and other payables from exchange transactions	2 975 663
Tenants deposits	3 441 115
Unspent conditional grant	7 248 863
Finance lease obligation	46 581
	13 712 222

39. 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.

40. Deviation from supply chain management regulations

Paragraph 12(1) (d) (i) of Municipal Supply Chain Management regulations state that a Supply Chain Management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 (1) (a) of the same regulations states that a Supply Chain Management policy may, in certain circumstances allow the accounting officer to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, provided that he records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the annual financial statements.

During the year under review, services to the contract value of R 3 815 748 were procured without following the normal procurement processes as established by the Supply Chain Management Policy. These services includes Security, tenant vetting, installation of gates, tilling of rental stock and accounting services. The reasons for the deviations were documented and reported to the board. The board considered the report and approved the deviations.

Notes to the Annual Financial Statements

Figures in Rand

41. Budget differences

Changes from the approved budget to the final budget

The changes between the approved and final budget are due to transfers received from Ekurhuleni Metropolitan Municipality (EMM) as the adjustment budget. The budget adjustment of R7 826 000 was approved and a further amount of R6 990 048 was claimed through EMM's Human Settlement department as re-imbursement for refurbishments costs and professional fees incurred in a social housing project. The final budget as indicated in the statement of comparison of budget and actual is therefore the approved budget for the year.

42. Deferred operating lease

Office building: Leased	(80 683)	-

Operating Lease- Building	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	826 571	3 253 918	-	4 080 489

Operating lease is in respect of leased office building. The lease period is five (5) years with the annual escalation of 8%. The lease payments include rental, parking and operating costs.