ANNEXURE B

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, 2018

These annual financial statements were prepared by:
D Dlamini
Chief Financial Officer
Approved: 30 November, 2018

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	State Owned Company (SOC)
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 Hendrik Potgieter & 7th Avenue Edenvale
Business address	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale
Postal address	P O Box 1245 Germiston 1400
Controlling municipality	City of Ekurhuleni established in South Africa
Bankers	ABSA Bank Limited
Auditors	Auditor General SA
Company 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
EHC	Ekurhuleni Housing Company
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	Social Housing Regulatory Authority
SOC	State owned Company
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 8 to 46, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 November, 2018 and were signed on its behalf by:

Z Nkamana (Non-Executive Director) **Chairperson-Board of Directors**	**GB Molefe (Acting Executive Director)** **Acting Chief Executive Officer**

30 November, 2018

Directors' Report

The directors submit their report for the year ended 30 June, 2018.

1. Incorporation

The entity was incorporated in the Republic of South Africa 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 and management of social and rental housing stock

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

3. Going concern

The annual financial statements are prepared on the going concern basis. The Board of Director therefore foresees that the entity will continue as a going concern. The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the entity has the resources in place to continue in operation for the foreseeable future. The continued existence of the entity is dependent on the financial support of its shareholder.

The shareholder approved grants of R8 000 000 to Phase II Housing Company (SOC) Ltd for the 2017/18 financial year. Furthermore an adjustment budget of R24 054 160 was approved and received during the financial year. A total of R82 400 000 has been approved as a grant in the 2018/19 budget.

At 30 June, 2018, the entity had an accumulated surplus of R 119,765,241 and the entity's total assets exceeded its liabilities by R 119,765,341.

Based on the above support and accumulated surplus, the Board of Directors is of the view that the entity will continue as a going concern .

4. Subsequent events

The Board of Directors are not aware of any events that occurred between the reporting date and the date the financial statements were authorised for issue 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

There were no changes in the authorised or issued share capital of the entity during the period under review.

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

7. Non-current assets

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

Directors' Report

8. Directors

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

Name	Nationality	Date appointed
F Segole (Non-Executive Director)	South African	01 May 2015
L Netshitenzhe (Non-Executive Director)	South African	01 May 2015
A Pillay (Executive Director)	South African	01 November 2015
K Maithufi (Non-Executive Director)	South African	01 May 2015
A Makhado (Non-Executive Director)	South African	01 July 2015
M Ngobeni (Non-Executive Director)	South African	01 July 2015
T Limako (Non-Executive Director)	South African	01 July 2015
L Vutula (Non-Executive Director)	South African	01 July 2015
Z Nkamana (Non-Executive Director)	South African	01 July 2015
D Dlamini (Executive Director)	South African	01 October 2014

9. Company Secretary

The secretary of the entity is Adv Kgabo Sebola of:

Business address	
	Hanover building Cnr Hendrik 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 IV report on Corporate Governance for South Africa. The Board of Directors reviews management reports at board meetings on a quarterly basis.

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

Board of directors

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

Chairperson and chief executive

The Chairperson is a non-executive and independent director (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.

Directors' Report

Remuneration

The remuneration of the Executive Directors and non Executive Directors is determined by the shareholder. The remuneration of key management and directors are disclosed in a note of the annual financial statements.

Board meetings

The board have met on 4 separate occasions during the period under review 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.

Audit committee

The entity does not have its own audit committee. At present the audit committee of the City of Ekurhuleni 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 City of Ekurhuleni provided the internal audit function to the entity. This is in compliance with the Municipal Finance Management Act, 2003.

11. Controlling municipality

The entity's controlling municipality is the City of Ekurhuleni established in South Africa.

12. Bankers

ABSA Bank Limited.

13. Auditors

Auditor General 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
30 November, 2018

Statement of Financial Position as at 30 June, 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Loans to/(from) related parties	3	420,000	420,000
Receivables from exchange transactions	5	1,523,517	1,887,515
VAT receivable		812,724	543,481
Consumer debtors	6	1,628,487	793,110
Cash and cash equivalents	8	35,540,172	20,468,752
		39,924,900	**24,112,858**
Non-Current Assets			
Investment property	9	195,469,227	131,622,028
Property, plant and equipment	10	3,135,249	2,546,586
Intangible assets	11	41,038	238,603
		198,645,514	**134,407,217**
Total Assets		**238,570,414**	**158,520,075**
Liabilities			
Current Liabilities			
Current tax payable	4	36,968,047	19,019,772
Deferred operating lease	13	68,991	58,620
Trade and other payables from exchange transactions	14	5,086,340	4,975,154
Provisions	15	2,994,272	3,046,943
Tenants Deposits	7	5,000,910	4,258,192
		50,118,560	**31,358,681**
Non-Current Liabilities			
Unspent conditional grants and receipts	16	20,862,707	12,683,355
Deferred tax	12	47,823,806	31,269,194
		68,686,513	**43,952,549**
Total Liabilities		**118,805,073**	**75,311,230**
Net Assets		**119,765,341**	**83,208,845**
Contributions from owners	17	100	100
Accumulated surplus		119,765,241	83,208,745
Total Net Assets		**119,765,341**	**83,208,845**

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment		35,286,029	28,222,722
Retail rent		45,418	54,799
Recoveries	19	4,940,990	4,034,127
Other income	20	91,390	352,363
Interest received	21	3,363,127	1,523,022
Total revenue from exchange transactions		**43,726,954**	**34,187,033**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		100,913,987	99,358,484
Total revenue	18	**144,640,941**	**133,545,517**
Expenditure			
Employee related costs	22	(21,449,189)	(19,311,334)
Remuneration of non-executive directors	22	(2,910,000)	(1,529,000)
Depreciation and amortisation	9,10,11	(4,927,961)	(2,112,944)
Impairment on Loans	25	-	(4,907,393)
Finance costs,SARS interest and penalties	23	(3,268,264)	(5,200,957)
Lease rentals on operating lease		(632,477)	(403,140)
Impairment of Consumer Debtors	24	(6,254,800)	(2,872,457)
Repairs and maintenance	26	(4,387,469)	(6,741,089)
Loss on disposal of assets and liabilities		(31,996)	(30,213)
General Expenses	27	(24,586,982)	(21,433,363)
Total expenditure		**(68,449,138)**	**(64,541,890)**
Surplus before taxation		**76,191,803**	**69,003,627**
Taxation	28	39,635,308	73,361,789
Surplus (deficit) for the year		**36,556,495**	**(4,358,162)**
Attributable to:			
Owners of the controlling entity		36,556,495	(4,358,162)
		36,556,495	**(4,358,162)**

Statement of Changes in Net Assets

Figures in Rand	Contributions from owners	Accumulated surplus	Total net assets
Balance at 1 July, 2016	**100**	**87,566,907**	**87,567,007**
Changes in net assets			
Surplus (Deficit) for the period	-	(4,358,162)	(4,358,162)
Total changes	-	(4,358,162)	(4,358,162)
Opening balance as previously reported	100	83,150,198	83,150,298
Adjustments			
Correction of errors	-	58,548	58,548
Restated* Balance at 1 July, 2017	**100**	**83,208,746**	**83,208,846**
Changes in net assets			
Surplus (Deficit) for the period	-	36,556,495	36,556,495
Total changes	-	36,556,495	36,556,495
Balance at 30 June, 2018	**100**	**119,765,241**	**119,765,341**
Note(s)	17		

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
SARS tax refund		15,325,141	-
Customers		28,336,025	23,722,345
Grants		42,008,610	26,559,083
Interest income		2,174,760	1,053,283
Other receipts		6,220,748	4,852,170
		94,065,284	56,186,881
Payments			
Employee related costs		(24,328,503)	(19,330,154)
Suppliers		(29,568,725)	(26,723,810)
Finance costs		(107,514)	(107,170)
Taxation paid		(23,618,313)	(20,000)
		(77,623,055)	(46,181,134)
Net cash flows from operating activities	29	**16,442,229**	**10,005,747**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(1,367,970)	(1,910,603)
Proceeds from sale of property, plant and equipment	10	85,595	-
Purchase of investment property	9	(831,152)	(6,872,940)
Purchase of other intangible assets	11	-	(259,612)
Loans to economic entities		-	(291,582)
Net cash flows from investing activities		**(2,113,527)**	**(9,334,737)**
Cash flows from financing activities			
Receipts/(repayment) of deposits charged		742,718	817,077
Finance lease payments		-	(46,581)
Net cash flows from financing activities		**742,718**	**770,496**
Net increase/(decrease) in cash and cash equivalents		**15,071,420**	**1,441,506**
Cash and cash equivalents at the beginning of the year		20,468,752	19,027,246
Cash and cash equivalents at the end of the year	8	**35,540,172**	**20,468,752**

Statement of Comparison of Budget and Actuals

Figures in Rand	Original budget (refer to note 38)	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 2018											
Financial Performance											
Transfers recognised- capital allocation in kind	-	-	-	-		-	67,084,729		67,084,729	- %	- %
Interest received	1,476,000	-	1,476,000	-		1,476,000	3,363,127		1,887,127	228 %	228 %
Transfers recognised - operational	8,000,000	25,862,183	33,862,183	-		33,862,183	33,829,258		(32,925)	100 %	423 %
Other own revenue	48,623,000	-	48,623,000	-		48,623,000	40,363,827		(8,259,173)	83 %	83 %
Total revenue (excluding capital transfers and contributions)	**58,099,000**	**25,862,183**	**83,961,183**	**-**		**83,961,183**	**144,640,941**		**60,679,758**	**172 %**	**249 %**
Employee costs	(21,450,200)	-	(21,450,200)	-	-	(21,450,200)	(21,449,189)	-	1,011	100 %	100 %
Remuneration of non-executive directors	(2,914,000)	-	(2,914,000)	-	-	(2,914,000)	(2,910,000)	-	4,000	100 %	100 %
Debt impairment	(1,945,269)	-	(1,945,269)			(1,945,269)	(6,254,800)	-	(4,309,531)	322 %	322 %
Depreciation and asset impairment	(1,728,000)	-	(1,728,000)			(1,728,000)	(4,927,961)	-	(3,199,961)	285 %	285 %
Finance charges	(77,000)	-	(77,000)	-	-	(77,000)	(3,268,264)	-	(3,191,264)	4,244 %	4,244 %
Other expenditure	(29,984,531)	(903,023)	(30,887,554)	-	-	(30,887,554)	(29,638,924)	-	1,248,630	96 %	99 %
Total expenditure	**(58,099,000)**	**(903,023)**	**(59,002,023)**	**-**	**-**	**(59,002,023)**	**(68,449,138)**	**-**	**(9,447,115)**	**116 %**	**118 %**
Surplus/(Deficit)	**-**	**24,959,160**	**24,959,160**	**-**		**24,959,160**	**76,191,803**		**51,232,643**	**305 %**	**- %**
Taxation	-	24,054,160	24,054,160	-		24,054,160	39,635,308		15,581,148	165 %	- %
Surplus/(Deficit) for the year	**-**	**905,000**	**905,000**	**-**		**905,000**	**36,556,495**		**35,651,495**	**4,039 %**	**- %**

Statement of Comparison of Budget and Actuals

Comments

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

1. Revenue

Transfers recognised-capital allocation in kind.

The amount of R67 084 729 relates to the transfer of Delvile Ext 9 property from the City of Ekurhuleni. The property has now been recognised as a grant received in kind.

Interest received

Interest received includes interest from overdue accounts of R 1,188 367 and interest from investments and bank accounts of R2 174 760. Interest earned from overdue accounts exceeded the budgeted amount. This is due to increasing number of tenant's accounts not being paid on time. On the other hand the interest on Cash balances and investments also exceeded the budgeted amount due to the unbudgeted refund from SARS and grant from SHRA that increased the actual cash balances.

Other own revenue

Other own revenue is income from rental of facilities, refuse,sewerage, water, damages recovered and legal fees. Vacant units have a negative impact on the occupancy rate for the quarter as a 100% occupancy was budgeted and spread equally over the 12 months. Some of the new units in Chris Hani, Block E and Delvile were only occupied later in the year.

Revenue from damages and repairs was budgeted at R1,1 million, however only R45 859 was recovered. Most of the rental stock has aged and therefore most of the cost of repairs are absorbed by normal repair and maintenance budget

Revenue from legal fees relating to debtors handed over for collection was budgeted at R1, 3 million, however no income was recognised during the year, as there was no related expenditure incurred

2. Depreciation and asset impairment

Depreciation is higher than anticipated due to the capitalisation of Chris Hani and Delville investment property. A decision to capitalise the asset was taken subsequent to the budget process. Refurbishment costs for Block E also started depreciating during the year from date of occupation.

3. Debt impairment

The gross debtors book has increased by R3 million (25%) compared to the previous year. 100% provision is being made on debtors owing above 120 days including any amounts owed in the category of 30 to 90 days for the tenants that are over 120 days.

4. Finance Costs

Finance costs mainly relates to a provision for interest on tenant's deposits and SARS interest and penalties. SARS interest and penalties amounted to R3,174 million and has therefore resulted in overspending of the budget as it was not provided for, while interest for consumer debtor's deposits amounted to R 107 308 and exceeded the budget of R77 000 due to increased number of new tenants.

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, 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:

• **Impairment of 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**

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets.

Accounting Policies

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

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	32-50 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.

Accounting Policies

1.3 Investment property (continued)

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 any accumulated depreciation and any impairment losses.

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

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

Item	Average useful life
•Furniture and Office Equipment	10 years
• Motor vehicles	14 years
• IT equipment	6 years
• Other Equipment	8 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.

1.4 Property, plant and equipment (continued)

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 26).

1.5 Intangible assets

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

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

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

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

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

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

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

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:

Accounting Policies

1.5 Intangible assets (continued)

Item	Useful life
Computer software, other	2-15 years

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

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
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:

Accounting Policies

1.6 Financial instruments (continued)

- 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.

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).

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.

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.

Accounting Policies

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.

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.

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 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.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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.

1.9 Impairment of non-cash-generating assets (continued)

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.

1.10 Revenue from exchange transactions

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

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

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

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

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

• The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

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

Accounting Policies

1.10 Revenue from exchange transactions (continued)

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.

1.11 Revenue from non-exchange transactions

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

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.

Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

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

Transfers, including Grants and Receipts

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind 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.

1.12 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.

1.13 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.

1.14 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 2017/07/01 to 2018/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.15 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.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Accounting Policies

1.15 Related parties (continued)

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).

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

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

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.

1.16 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.

1.17 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

1.18 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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

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 1 July, 2018 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 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	1 April, 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	1 April, 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	1 April, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	1 April, 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	1 April, 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	1 April, 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	1 April, 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	1 April, 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	1 April, 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	1 April, 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	1 April, 2018	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Loans to/(from) related entities

Related entities

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

Inter-company loans are unsecured, interest free with no specific repayment terms. The recovery of R420 000 from the liquidation will be realised once the liquidation process of Lethabong Housing Company (SOC) Limited has been finalised.

Loans to related entities impaired

As at 30 June 2018, there were no impaired loans to related entities.

4. Current tax payable

Opening balance	(19,019,771)	1,053,942
Transfer of functions in - Tax receivable Pharoe Park Housing Company (SOC) Ltd	-	(454,288)
Transfer of functions in - Tax receivable Ekurhuleni Development Housing Company (SOC) Ltd	20,612	(640,266)
Securities tax payable	-	10,000
Transfer of functions in-Securities tax paid/(payable) Pharoe Park Housing Company (SOC) Ltd.	-	10,000
Current year tax payable	(23,101,308)	(19,368,005)
Current year interest and penalties payable	(3,160,750)	(5,093,785)
Transfer duty tax payable	-	(9,862,511)
Previous year tax paid in current year	19,368,002	-
Previous year interests and penalties	4,250,309	-
Tax (received)/ receivable: Pharoe Park Housing Company (SOC)Ltd	(14,680,102)	14,680,102
Tax (received)/ receivable: Ekurhuleni Development Company (SOC) Ltd	(645,039)	645,039
	(36,968,047)	**(19,019,772)**

TAX RATE RECONCILIATION	30 June 2018	%	30 June 2017	%
(Loss)/Profit before tax	76,191,803		69,003,627	
Tax on profit before tax at standard rate	21,333,705	28	19,304,623	28
Permanent differences: tax receivables	(20,612)	-	(14,226,529)	(21)
Investment property	-	-	9,862,511	14
Impairment of loans	-	-	1,374,070	2
SARS penalties and interest	885,010	1	1,426,260	2
Utilisation of assessed loss	-	-	(2,404,584)	(3)
Temporary differences: Investment property and PPE	16,660,904	22	50,607,899	73
Provisions	776,301	1	3,525,274	5
Assessible tax losses	-	-	3,892,265	6
	39,635,308	**52**	**73,361,789**	**106**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Receivables from exchange transactions

Deposits	404,809	404,809
Staff Debtors	47,624	274,643
Related party receivables-City of Ekurhuleni	92,673	103,931
Other receivables	596,873	309,688
Prepaid expenses	381,538	794,444
	1,523,517	**1,887,515**

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	381,538	1,542,303
More than three months and not more than six months	596,873	103,931
Over 6 months	545,105	241,281

6. Consumer debtors

Gross balances		
Housing rental	13,383,830	10,700,117
Less: Allowance for impairment		
Housing rental	(11,755,343)	(9,907,007)
Net balance		
Housing rental	1,628,487	793,110
Included in above is receivables from exchange transactions		
Housing rental	13,383,830	10,700,117
Net balance	**13,383,830**	**10,700,117**
Housing rental		
Current (0 -30 days)	1,764,485	1,028,252
31 - 60 days	1,362,599	767,542
61 - 90 days	1,187,634	695,664
91 - 120 days	912,784	458,500
121 - 365 days	8,156,328	7,750,159
	13,383,830	**10,700,117**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(9,907,007)	(10,925,359)
Contributions to allowance	(6,254,800)	(2,872,455)
Debt impairment written off against allowance	4,406,464	3,890,807
	(11,755,343)	**(9,907,007)**

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 5,000,910 - (30 June 2017: R 4,258,192).

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

6. Consumer debtors (continued)

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, 2018, R 4,314,718 (30 June 2017: R 2,491,458) were past due but not impaired.

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

	2018	2017
1 month past due	1,764,485	1,028,252
2 months past due	1,362,599	767,542
3 months past due	1,187,634	695,664

7. Tenants deposits

	2018	2017
Deposits charged	5,000,910	4,258,192

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.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	198	221
Short-term tenant deposits	3,550,233	3,404,621
Unspent grant - Restricted cash	14,103,480	13,140,667
Bank balances	17,886,261	3,923,243
	35,540,172	**20,468,752**

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2018	30 June, 2017	30 June, 2016	30 June, 2018	30 June, 2017	30 June, 2016
ABSA Current account - 4052348660	8,899,506	1,184,520	7,102,625	8,899,506	1,184,520	7,102,625
ABSA Call account - 4078340070	2,119,248	2,032,277	1,943,741	2,119,248	2,032,277	1,943,741
ABSA Fixed deposit account - 2071747815	-	4,678,197	7,248,863	-	4,678,197	7,248,863
ABSA Fixed deposit account - 80809458	5,059,622	-	-	-	-	-
ABSA Call account - 2072805440	-	-	857,092	-	-	857,092
ABSA-current account- 4055919492	487,202	581,158	413,392	487,202	581,158	413,392
ABSA- current account- 4050383636	8,499,553	2,157,565	146,762	8,499,553	2,157,565	146,762
ABSA call account- 4078340151	1,430,985	1,372,343	1,312,979	1,430,985	1,372,343	1,312,979
Call 32 Day 676886622010	9,043,858	8,462,389	-	9,043,858	8,462,389	-
Total	**35,539,974**	**20,468,449**	**19,025,454**	**30,480,352**	**20,468,449**	**19,025,454**

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

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	217,061,058	(21,591,831)	195,469,227	149,145,178	(17,523,150)	131,622,028

Reconciliation of investment property -30 June 2018

	Opening balance	Additions	Depreciation	Total
Investment property	131,622,028	67,915,880	(4,068,681)	195,469,227

Reconciliation of investment property - 30 June 2017

	Opening balance	Additions	Depreciation	Total
Investment property	47,858,107	85,222,008	(1,458,087)	131,622,028

Figures in Rand	2018	2017

9. 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.

ErF 948 Delville Ext 9 property. The company took control of the property in October 2017.

Investment properties registered in the name of Germiston Phase II Housing Company (SOC) Ltd were valued during the year at the total fair value of R328 650 000. The amount excludes the new buildings of Delville Ext 9, which can be valued at cost of R 67 084 729.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Investment property (continued)

Details of property

Investment property at cost- Airport Park and Delvile

- Land	1,484,465	1,484,465
- Buildings	29,070,639	29,070,639
- Capitalised expenditure	134,833	134,833
	30,689,937	**30,689,937**

Investment property at cost- Pharoe Park

- Land	1,995,063	1,995,063
- Buildings	9,848,291	9,017,141
- Capitalised expenditure	28,869,635	28,869,635
	40,712,989	**39,881,839**

Investment Property at cost-Chris Hani Village

- Land	137,975	137,975
- Buildings	78,233,893	78,233,893
	78,371,868	**78,371,868**

Investment Property at cost- Delville Ext 9

- Land	201,535	201,535
- Buildings	67,084,729	-
	67,286,264	**201,535**

10. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Furniture/ Office Equipment	844,434	(321,737)	522,697	728,971	(262,586)	466,385
Motor vehicles	114,958	(69,889)	45,069	250,790	(125,790)	125,000
Office equipment	392,187	(182,207)	209,980	257,060	(143,740)	113,320
IT equipment	1,371,371	(490,640)	880,731	1,001,775	(325,247)	676,528
Other equipment	2,096,646	(619,874)	1,476,772	1,481,930	(316,577)	1,165,353
Total	**4,819,596**	**(1,684,347)**	**3,135,249**	**3,720,526**	**(1,173,940)**	**2,546,586**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and Fittings	466,385	130,804	(659)	(73,833)	522,697
Motor vehicles	125,000	-	(71,651)	(8,280)	45,069
Office equipment	113,320	138,476	(836)	(40,980)	209,980
IT equipment	676,528	458,029	(25,404)	(228,422)	880,731
Other equipment	1,165,353	640,661	(9,929)	(319,313)	1,476,772
	2,546,586	**1,367,970**	**(108,479)**	**(670,828)**	**3,135,249**

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Prior period errors	Depreciation	Total
Furniture and Fittings	285,857	238,020	-	-	(57,492)	466,385
Motor vehicles	92,336	-	-	45,959	(13,295)	125,000
Office equipment	168,642	55,938	-	-	(111,260)	113,320
IT equipment	308,381	517,400	(10,290)	(37)	(138,926)	676,528
Other equipment	293,794	1,099,245	(19,923)	1,412	(209,175)	1,165,353
	1,149,010	**1,910,603**	**(30,213)**	**47,334**	**(530,148)**	**2,546,586**

There were no impairment of property, plant and equipment during the period under review (30 June 2017-R0)

Other equipment consists mainly of security related assets.

11. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	333,503	(292,465)	41,038	555,374	(316,771)	238,603

Reconciliation of intangible assets - 30 June 2018

	Opening balance	Disposals	Amortisation	Total
Computer software	238,603	(9,113)	(188,452)	41,038

Reconciliation of intangible assets - 30 June 2017

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Deferred tax

Deferred tax liability

Opening balance	(31,269,194)	27,088,609
Deferred tax origination of temporary tax	(18,512,003)	(27,545,763)
Deferred tax movement from reversals of temporary differences	1,957,391	(30,812,040)
Total deferred tax (liability)/asset	**(47,823,806)**	**(31,269,194)**

Reconciliation of deferred tax liability.

At beginning of year	(31,269,194)	27,088,609
Leave provision	(74,543)	234,769
Performance bonus	35,116	109,767
Investment property- Building:Pharoe Park	108,462	(23,268,011)
Investment Property - Buildings: Germiston Phase II	1,755,195	(5,021,013)
Investment property- Building:Chris Hani	438,110	(21,811,866)
Property plant and equipment	80,299	(221,693)
Investment property -Building: Delville	(18,512,003)	-
Operating lease liability	2,904	16,413
Provision for interest on deposit : Pharoe Park (Recognised on transfer date)	-	(53,951)
Provision for interest on deposit : Germiston Phase II	-	(75,155)
Assessable loss : Germiston Phase II	-	(3,892,266)
Provision for bad debts	(388,152)	(4,374,797)
	(47,823,806)	**(31,269,194)**

Recognition of deferred tax liability

The entity has a net deferred tax liability.

The company has raised the deferred tax liability. The entity will have sufficient future income to pay the deferred tax liability.

This assumption is supported by the recent 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 increase in the deferred tax liability mainly due to the receipt of the Delville property at no consideration.

13. Deferred operating lease

Office building: Leased	68,991	58,620

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Deferred operating lease (continued)

Operating Lease- Building 30 June 2018	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	667,622	1,767,583	-	2,435,205

Operating Lease- Building 30 June 2017	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	618,168	2,435,205	-	3,053,373

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 and parking.

14. Trade and other payables from exchange transactions

	2018	2017
Trade payables	621,037	371,310
Payroll creditors	230,170	299,031
Accrued 13th cheque bonus	615,147	443,651
Accrued expense-Suppliers	1,222,993	2,402,480
Other payables	37,015	56,893
Unallocated receipts	102,134	107,378
Advance payments-consumer debtors	2,257,844	1,294,411
	5,086,340	**4,975,154**

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.

Other payables have now been split to separately disclose the advance payments for consumer debtors.

15. Provisions

Reconciliation of provisions - 30 June 2018

	Opening Balance	Additions	Utilised during the year	Total
Leave Pay Provision	1,365,785	92,864	(359,091)	1,099,558
Performance Bonus Provision	1,145,514	992,669	(867,253)	1,270,930
Provision for interest on tenant's deposits	535,644	107,308	(19,168)	623,784
	3,046,943	**1,192,841**	**(1,245,512)**	**2,994,272**

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	1,057,760	(665,737)	1,145,514
Provision for interest on tenant's deposits	461,094	100,085	(25,535)	535,644
	1,741,909	**2,244,150**	**(939,116)**	**3,046,943**

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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Provisions (continued)

A provision for leave is recognised for leave due to employees at year end. The provision for leave 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 be realised within the following financial year when employees request leave to be paid out or taken.

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

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017
Unspent grant	20,862,707	12,683,355

Movement during the year

	2018	2017
Opening balance	12,683,355	7,248,863
Income recognition during the year- NHF	-	(2,977,157)
SHRA capital restructuring grant received during the year	8,179,352	8,411,649
	20,862,707	**12,683,355**

The unspent grant is allocated from National Housing Fund and Social Housing Regulatory Authority for social housing projects.

The grant is earmarked to be spend on Social Housing projects.

17. Contributions from owners

	2018	2017
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.

18. Revenue

	2018	2017
Rental from investment properties	35,286,029	28,222,722
Rental from retail property	45,418	54,799
Recoveries	4,940,990	4,034,127
Other income	91,390	352,363
Interest received	3,363,127	1,523,022
Government grants & subsidies	100,913,987	99,358,484
	144,640,941	**133,545,517**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Revenue (continued)

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

Rental of facilities and equipment	35,286,029	28,222,722
Rental from retail property	45,418	54,799
Recoveries	4,940,990	4,034,127
Other income	91,390	352,363
Interest received	3,363,127	1,523,022
	43,726,954	**34,187,033**

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

Transfer revenue		
Government grants & subsidies- City of Ekurhuleni	100,913,987	99,358,484

19. Recoveries

Legal fees	-	20,521
Refuse	1,475,033	1,177,069
Damage and repairs	45,859	39,196
Sewerage	1,090,465	878,032
Water	2,329,633	1,919,309
	4,940,990	**4,034,127**

20. Other income

Lease administration fees	19,530	197,425
Letters of demand charged	39,886	101,736
Tender administration fees	31,974	53,202
	91,390	**352,363**

21. Interest received

Bank	2,174,760	1,057,342
Interest charged on overdue accounts-Tenants	1,188,367	465,680
	3,363,127	**1,523,022**

The amount included in Investment revenue arising from exchange transactions amounted to R 2,174,760 (30 June 2017: R1,057,342).

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Employee related costs

Basic	16,357,953	13,957,420
Performance bonus	992,668	1,057,760
Medical aid - company contributions	923,684	784,831
UIF	56,777	55,770
SDL	217,301	165,089
Leave pay provision charge	92,864	1,086,305
Provident fund	1,410,522	1,016,675
Cellphone allowance	164,400	149,500
Overtime payments	237,088	118,681
13th Cheques	777,172	710,903
Travel allowance	218,760	208,400
	21,449,189	**19,311,334**

REMUNERATION OF CHIEF EXECUTIVE OFFICER

Basic	2,320,826	1,768,468
Performance Bonus	256,215	198,174
Contribution to UIF, Medical and Pension Fund	241,055	189,024
Other	13,800	8,645
	2,831,896	**2,164,311**

REMUNERATION OF CHIEF FINANCIAL OFFICER

Basic	1,799,972	1,262,169
Travel Allowance	120,000	110,000
Performance Bonuses	177,752	146,706
Contributions to UIF, Medical and Pension Funds	206,356	140,563
Acting Allowance	55,518	6,314
Other	13,800	4,600
	2,373,398	**1,670,352**

REMUNERATION OF COMPANY SECRETARY

Basic	969,222	869,561
Performance Bonuses	90,154	85,691
Contributions to UIF, Medical and Pension Funds	103,017	82,844
Leave pay	25,017	34,198
Other	13,800	14,950
	1,201,210	**1,087,244**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Employee related costs (continued)

REMUNERATION OF NON EXECUTIVE DIRECTORS

L Vutula	390,000	199,000
F Segole	360,000	206,000
K Maithufi	360,000	198,000
L Netshifhefhe	360,000	190,000
M Ngobeni	360,000	182,000
TA Limako	360,000	182,000
A Makhado	360,000	182,000
Z Nkamana	360,000	190,000
	2,910,000	**1,529,000**

23. Finance costs

Trade and other payables	206	7,087
SARS- interest and penaties provision	3,160,750	5,093,785
Interest paid on tenant's deposits	107,308	100,085
	3,268,264	**5,200,957**

24. Impairment-Consumer Debtors

Contributions to debt impairment provision	1,848,336	(1,018,350)
Bad debts written off - Consumer debtors	4,406,464	3,890,807
	6,254,800	**2,872,457**

25. Impairment on Loans

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

26. Repairs and maintenance

Contractors		
Maintenance of Buildings and Facilities	4,387,469	6,741,089

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. General expenses

Advertising	187,578	208,200
Assessment rates & municipal charges	594,039	595,055
Auditors remuneration	857,086	1,332,749
Bank charges	595,223	538,507
Cleaning	2,613,993	1,050,970
Consulting and professional fees	2,853,958	3,980,273
Debt collection	506,394	159,374
Insurance	342,318	131,482
Conferences and seminars	104,203	227,649
Gardening	158,565	-
Motor vehicle expenses	83,922	150,918
Pest control	275,368	14,011
Placement fees	117,642	654,495
Printing and stationery	245,041	817,886
Security	5,240,612	3,436,330
Software licenses	843,777	885,661
Telephone and fax	621,442	564,557
Training	-	172,728
Travel and accomodation- local	261,856	202,122
Electricity	517,894	112,188
Sewerage and waste disposal	1,133,194	390,244
Water	3,489,557	3,330,945
Refuse	1,775,833	1,692,250
Bursaries	138,974	339,394
Catering and Refreshments	128,247	154,229
Other expenses	900,266	291,146
	24,586,982	**21,433,363**

28. Taxation

Major components of the tax expense

Deferred Tax	16,554,612	58,357,803
Local income tax - current period	23,080,696	5,141,475
Transfer duty tax	-	9,862,511
	39,635,308	**73,361,789**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Cash generated from operations

Surplus (deficit)	36,556,495	(4,358,162)
Adjustments for:		
Depreciation and amortisation	4,927,961	2,112,944
Loss on sale of assets and liabilities	31,996	30,213
Impairment deficit	-	4,907,393
Debt impairment	6,254,800	2,872,457
Movements in operating lease assets and accruals	10,371	58,620
Movement in provisions	(52,671)	1,305,033
Movement in deferred tax	16,554,613	58,357,803
Movement in tax (securities transfer duty payable)	17,948,275	20,073,714
Capital Grants received in kind	(67,084,729)	(78,233,893)
Changes in working capital:		
Receivables from exchange transactions	94,755	(1,979,093)
Consumer debtors	(7,090,177)	(2,576,083)
Trade and other payables from exchange transactions	111,188	2,000,309
Unspent conditional grants and receipts	8,179,352	5,434,492
	16,442,229	**10,005,747**

30. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	827,433	1,332,749
Amount paid - current year	(827,433)	(1,332,749)
	-	-

VAT

VAT receivable	812,724	543,481

Supply chain management regulations

Paragraph 36 (1) (a) of the Municipal Supply Chain Management 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. The regulations further states that the Accounting Officer must record the reasons for any deviations and report them to the next meeting of the board and include as a note to the annual financial statements.

During the year expenditure of R370 000 was incurred for legal services. The deviation was due to an urgent response to the court summons, which was due within 14 days with regard to a labour matter. The reasons for the deviations were documented and reported to the board. The board considered the report and approved the deviations.

Incident		
Appointment of legal council for labour court matter	370,000	-
Security services for newly constructed units	-	328,471
Cleaning Services for newly constructed units	-	275,000
Tenants vetting, credit check process for EHC rental units	-	503,000
Liquidation of EDC companies	-	530,100
Taxation and accounting services	-	300,000
	370,000	**1,936,571**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Fruitless and wasteful expenditure

Opening balance	5,100,210	6,425
Interest and penalties on underpayment of second provisional tax payment	3,160,750	5,093,785
	8,260,960	**5,100,210**

Interest and penalties on underpayment of 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 and Delville Ext 9 properties were transferred to EHC in April 2017 and October 2017 respectively, which required EHC to account for tax on the grant as per the new tax regulation.

32. Irregular expenditure

Opening balance	7,243,171	5,363,994
Add: Irregular Expenditure - current year	1,388,875	1,879,177
Add: Irregular Expenditure- current year relating to prior periods	3,983,118	-
	12,615,164	**7,243,171**

Analysis of expenditure awaiting condonation per age classification

Current year	5,371,993	1,879,177
Prior years	7,243,171	5,363,994
	12,615,164	**7,243,171**

An amount of R888 372 relates to an instance where contracts were awarded based on points given for criteria that different from those stipulated in the original invitation as required by SCM regulation 21(b) and 28 (1)(a).

Services to the value of R500 502 were procured without obtaining three quotations, furthermore the reason for not obtaining three quotation was not approved by the Chief Financial Officer as required by the SCM regulation 17(a) and (c).

Awards of R 3,983,118 was made to a supplier without following the competitive bidding process.

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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling municipality	City of Ekurhuleni
Other members of the group	Brakpan Bus Company (SOC) Limited Lethabong Housing Institute (SOC) NPC (in liquidation) East Rand Water Care Company (SOC) NPC
Members of key management	Dr M Pillay (Chief Executive Officer) D Dlamini (Chief Financial Officer) Adv K Sebola (Company Secretary)

Refer to note 22 for remuneration of members of key management.

The entity received services in kind from its parent municipality which were not significant to the operations of the entity. The services were:

- Internal audit functions

- Audit Committee functions

- Information Technology services

Related party balances

	2018	2017
Loan accounts - Receivable from related parties		
Lethabong Housing Institute (SOC) NPC (in liquidation)	420,000	420,000
Amounts included in Trade receivable (Trade Payable) regarding related parties		
City of Ekurhuleni	92,673	103,931
City of Ekurhuleni	(1,194,876)	(985,481)

A net amount of R1, 102, 203 relates to municipal rates accounts held with the City of Ekurhuleni. An arrangement has been made to settle the debt in equal monthly instalments within the next 12 months.

Related party transactions

	2018	2017
Services provided by related parties		
City of Ekurhuleni	7,228,902	6,039,867
Grant in kind received		
City of Ekurhuleni	(67,084,729)	(78,233,893)
Grants received from related parties		
City of Ekurhuleni	(33,862,183)	(18,147,435)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Risk management

Liquidity risk

Liquidity risk is the risk that the entity will not be able to settle its short term obligation when they fall due.

The entity manages its liquidity risk as follows:

1. Performing detail cashflow forecast, which takes into account short term obligations that will fall due.

2. Ongoing review of future commitments and available credit facility.

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

At 30 June, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	-	20,862,707	-	-
Trade and other payables	5,155,331	-	-	-
Provisions	2,994,272	-	-	-
Tenants deposits	5,000,910	-	-	-

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	5,033,775	-	-	-
Provisions	3,046,943	-	-	-
Tenants deposits	4,258,192	-	-	-

Interest rate risk

Interest rate risk is the risk that the value of financial instrument will change as a result of changes in interest rates.

The entity is not exposed to interest rate risk because it does not invest in long term interest bearing instruments such as bonds.

Credit risk

Consumer debtors - the risk of default by tenants on their rental obligations. The entity manages its credit risk for consumer debtors through the use of ITC and affordability reports.

Bank balances - the entity is exposed to credit risk as a result of cash deposited with banks. The entity manages its credit risk exposure to banks by investing in reputable major banks with good credit rating. At year end, the entity's bank deposits were with ABSA bank, which is rated Baa3 (outlook stable) by Moodys rating agency.

Credit quality of consumer debtors

Credit quality is the ability of consumer debtors to pay their obligations when they fall due. This is determined using ITC and affordability reports. The ITC report categorises the debtors into the following:

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

(ii) Category B and C - the risk of defaulting is neutral and the probality of defaulting is also neutral.

(iii) Category D,E and F - the risk of defaulting is high and probability of them defaulting is also high.

The entity selects tenants who falls into category A,B,and C, in order to manage its credit risk.

Figures in Rand	2018	2017

35. Financial instruments disclosure

Categories of financial instruments

30 June 2018

Financial assets

	At amortised cost
Loans to economic entities	420,000
Trade and other receivables from exchange transactions	1,523,517
Consumer debtors	1,628,487
Cash and cash equivalents	35,540,172
	39,112,176

Financial liabilities

	At amortised cost
Current tax payable	36,968,047
Trade and other payables from exchange transactions	5,086,340
Tenants deposits	5,000,910
Unspent conditional grant	20,862,707
Deferred operating lease	68,991
	67,986,995

30 June 2017

Financial assets

	At amortised cost
Loans to economic entities	420,000
Trade and other receivables from exchange transactions	1,887,515
Consumer debtors	793,110
Cash and cash equivalents	20,468,752
	23,569,377

Financial liabilities

	At amortised cost
Current tax payable	19,019,772
Trade and other payables from exchange transactions	4,975,154
Tenants deposits	4,258,192
Unspent conditional grant	12,683,355
Deferred operating lease	58,620
	40,995,093

36. Operating lease

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Prior period errors

One Motor Vehicle had a net book value of zero at the end of 2016/17 financial year. The net book value has now been adjusted in the previous period by a residual value based on the retail price and the depreciation was adjusted accordingly. The total adjustment of R45 959 has been made to the net book value of the asset. Similarly, other equipment items were adjusted to the total value of R1412.

An amount of R 11 213 reversed in error in the 2016/17 financial year is now being corrected. The amount relates to VAT portion of general expenses which was booked to the VAT control account as an accrual. The reversal of the accrual was duplicated in the VAT control account.

Remuneration of the Company Secretary was not disclosed separetely in the prior period, it is now disclosed separetely in note 22.

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

Statement of financial position	Balance as previously reported	Restated balance	Adjustment
Accumulated Depreciation: IT Equipment	(325,210)	(325,247)	37
Accumulated Depreciation: Other Equipment	(317,990)	(316,577)	(1,413)
Accumulated Depreciation: Motor Vehicle	(171,749)	(125,790)	(45,959)
VAT Receivable	532,268	543,481	(11,213)
	(282,681)	**(224,133)**	**(58,548)**

Statement of Financial Performance	Balance as previously reported	Restated balance	Adjustment
General expenses	(21,444,576)	(21,433,363)	11,213
Depreciation and amortisation	(2,160,279)	(2,112,944)	47,335
	(23,604,855)	**(23,546,307)**	**58,548**

38. Budget differences

Reconciliation of Original Budget

The difference between the original budget as approved by the City of Ekurhuleni and the original budget disclosed in the Statement of Comparison of Budget and Actuals is due to the reallocation of budget between line items during the year. The comparison in the table below indicates the reallocations made between the line items and within the approved budget parameters:

Budget line item	**Original budget**	**Entity's reallocation adjustments**	**Original budget - reallocated**
Employee costs	19,308,000	2,142,200	21,450,200
Remuneration of non-executive directors	-	2,914,000	2,914,000
Contracted Services	9,589,000	2,188,168	11,777,168
Operational Costs	21,890,000	(3,682,637)	18,207,363
Interest	27,000	50,000	77,000
Contribution for bad debts	5,907,000	(3,961,731)	1,945,269
Depreciation and Amortisation	1,378,000	350,000	1,728,000
	58,099,000	**-**	**58,099,000**