ITEM A-F (06-2009)

FINANCE DEPARTMENT: MUNICIPAL ENTITIES AUDITED FINANCIAL STATEMENTS AND ANNUAL REPORTS FOR THE 2007/08 FINANCIAL YEAR

PURPOSE OF REPORT

To submit the audited financial statements as well as the annual reports of the Municipal Entities to Council as prescribed by the Municipal Finance Management Act.

RECOMMENDATION

1. **That** the report on the audited financial statements and the annual reports of the Municipal Entities for the 2007/08 financial year **BE NOTED.**

2. **That** the report on the audited financial statements and the annual reports of the Municipal Entities for the 2007/08 financial year **BE SUBMITTED** to the Municipal Public Accounts Committee.

3. **That** the Municipal Public Accounts Committee **REPORTS BACK** to Council within two months as required by the Municipal Finance Management Act.

MOTIVATION

Strategic Priority	Good Governance
Ward affected	All wards
IDP linkage	Strategic Issue – Budget and Financial Management KPI – Compilation of Annual Financial Statements

Legislative Framework

Section 127 of the MFMA reads as follows:

127. (1) The accounting officer of a municipal entity must, within six months after the end of a financial year, or on such earlier date as may be agreed between the entity and its parent municipality, submit the entity's annual report for that financial year to the municipal manager of the entity's parent municipality.

(2) The mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control.

Section 129 of the MFMA which regulates the oversight process, reads as follows:

129. (1) The council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council-

(a) has approved the annual report with or without reservations;

(b) has rejected the annual report; or

(c) has referred the annual report back for revision of those components that can be revised.

The annual report of the EMM was submitted as a separate item, and this item deals with the annual reports of the Municipal Entities.

Audit Opinions

The outcomes of the audits of the Municipal Entities were as follows:

ERWAT – Qualified

- Property, Plant and Equipment – Asset register not complete, valuation of assets could not be verified, entitlement to land could not be verified
- Investment in subsidiaries – The financial effects of the discontinued operations were not separately disclosed and accounted for
- Available for sale revaluation reserve – Reserve overstated

ERTEC – Unqualified

BBC – Unqualified

EDC – Qualified

- Property, Plant and Equipment – Useful lives and residual values of PPE not assessed

Pharoe Park – Unqualified

Phase 2 – Unqualified

LHI – Qualified

- Estimate for defects on assets not adequately supported by the basis and assumptions necessary to determine the estimate.

Corrective Actions to be taken

The EMM has made one of the SAICA advisors available to the Municipal Entities on a full time basis to assist them with the current qualifications.

Annual Reports

The full set of annual reports of the Municipal Entities is attached as follows:

Annexure A – ERWAT Annual Report and Consolidated Financial Statements
Annexure B – EDC Consolidated Annual Report and Annual Financial Statements
Annexure C – Pharoe Park Housing Company Annual Financial Statements
Annexure D – Germiston Phase II Housing Company Annual Financial Statements
Annexure E – Lethabong Housing Institute Annual Financial Statements
Annexure F – Annual Report and Annual Financial Statements

ANNEXURE "A"

ERWAT ANNUAL REPORT 2008

DRAFT

Our Vision

To create and enhance shareholder wealth by pursuing and capitalising on business opportunities in the wastewater industry.

Table of Contents

6. Intangibles
7. Investment in subsidiaries
8. Investment in joint ventures
9. Available for sale investments
10. Amount due (to) from customers
11. Debtors
12. Embedded derivative
13. Cash and cash equivalents
14. Accumulated surplus
15. Available for sale revaluation reserve
16. Capitalisation reserve
17. Long-term borrowings
18. Deferred taxation
19. Trade and other payables
20. Notes to the cash flow statement
21. Related party transactions
22. Retirement benefit information
23. Financial instruments
24. Contingent liabilities
25. Deferred income
26. Segmental statement of financial performance
27. Actual versus budget (revenue and expenditure)

Chairperson’s Review

The financial year under review was challenging, even though the organisation yet again showed positive financial and overall results.

During the past six years South Africa experienced unprecedented economic growth. This in turn resulted in massive industrial as well as residential expansion. Consequently the demand for our core services, namely wastewater purification, increased in direct relation thereto.

Whilst ERWAT embraced this positive economic growth, it was necessary for our organization to review our capacity as well as available resources, to provide services at sustainable levels in response to the growth in demand and in accordance with our Facility Development Plan (FDP).

In terms of the projects that were in progress at the beginning of the financial year under review, I am pleased to report that good progress has been made with the construction of the fourth module at the Waterval wastewater care works at a cost of R165 million. Upon completion, the capacity of the plant will be 155 megalitres per day.

Notwithstanding that this project was undertaken in order to address the standard of water quality as well as the growth in demand, the Board has recognized the need for the company to meet the demands of the future through a continuous process of strategic repositioning.

ERWAT’s strategic focus will be the optimization of capacity. Some of the main components of our strategy are aimed at meeting the Department of Water Affairs and Forestry’s 2010 standards for water quality. The development and implementation of a sustainable sludge management strategy is also the subject of particular attention by ERWAT.

Further regionalisation is being considered as an option to meet future demands.

ERWAT is taking the strategic direction of our major shareholder, EMM, into consideration, and the organisation is currently refining its FDP 2025 model to align this with EMM’s planning for the future of this region.

The positioning of our company for the future is a strategic imperative. However, one of the key challenges remains our ability to secure finance while at the same time being able to service our commitments without having to pass the costs on to the customer.

The success of future projects, as with those of the past, will continue to depend on the availability of funding. The role that our parent municipality, EMM, will play in securing future funding, will remain crucial.

Throughout this period, the benchmarking of ERWAT's core competences and service delivery levels against those of international standards was the focus of particular attention.

This was achieved in numerous ways, especially through researching international best practices and standards as well as via partnerships with leading South African academic institutions in researching new technologies. We are proud of our association with Pretoria University through ERWAT's Chair of Wastewater Management, as well as with Rhodes University in terms of the Rhodes BioSURE® Process.

Good corporate governance remained at the forefront of our business ethics. The results are evident in our financial results, human resource practices, risk profile and operational successes. The supply chain management process (SCMP) was refined and customized to suit our specific line of business.

It is with gratitude that we acknowledge and thank our major stakeholders for their support and contributions, and the success of ERWAT can be attributed directly to the excellent working relationships that exist between us. In particular I would like to mention of our shareholders, namely the EMM, Johannesburg Metro and Lesedi Municipality.

I also extend our thanks to our key strategic partners who include the Department of Water Affairs and Forestry, the Department of Foreign Affairs, the Department of Trade and Industry, the Water Research Commission (WRC), the Water Institute of South Africa (WISA), the Department of Local Government (DPLG) and the South African Local Government Association (SALGA).

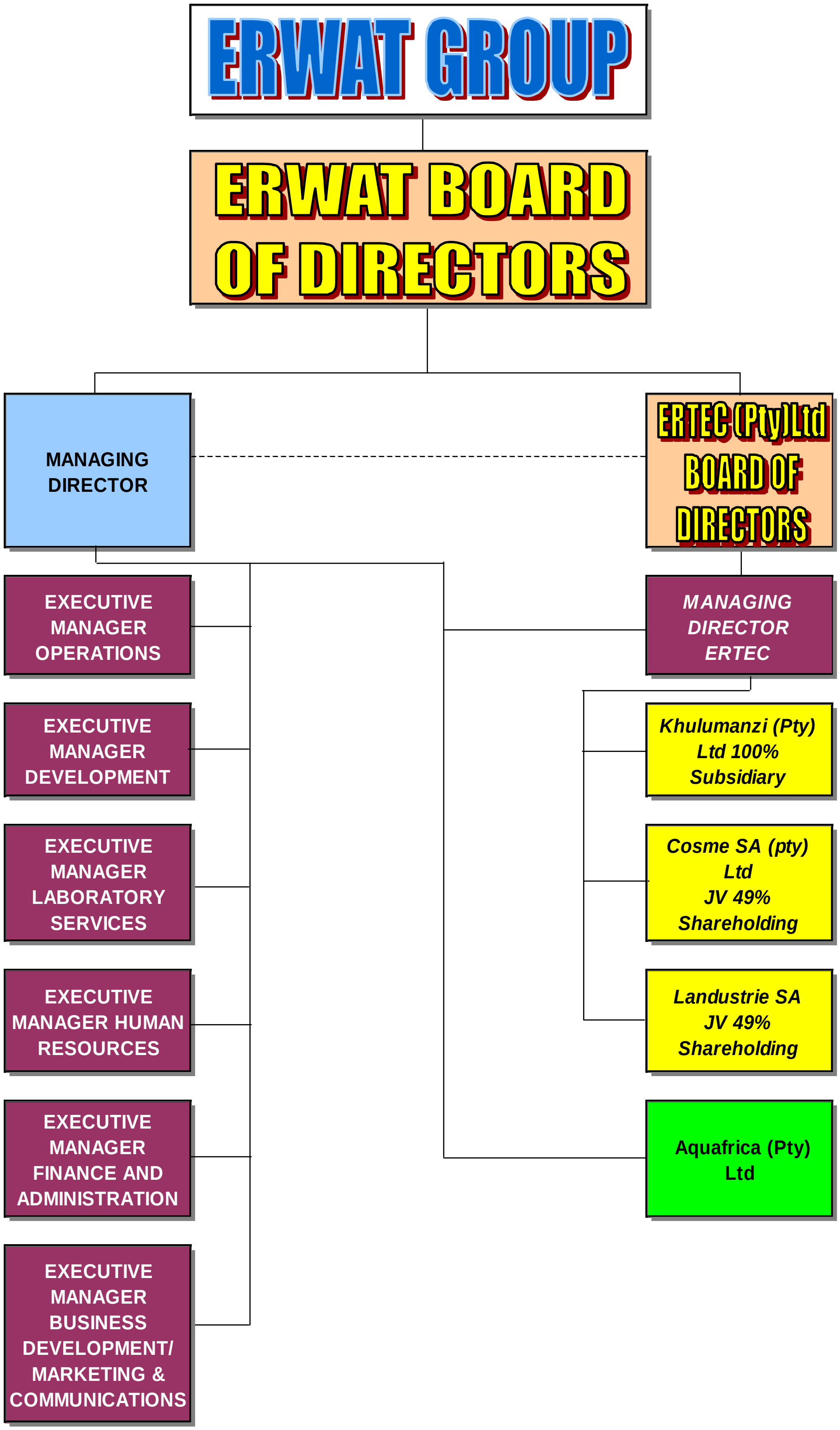
In addition, our operational efficiencies have been enhanced through the outstanding services of professional service providers such as our auditors, legal representatives, contractors and suppliers.

The Board also thanks the Managing Director, Executive Management, management and employees for their commitment and dedication during the year and for their role in ensuring the success of the company.

Finally, as Chairperson I wish to express my gratitude to the members of the Board of Directors. Thanks to their years of experience and knowledge, they have been able to offer a unique blend of business disciplines that has contributed significantly to the success of ERWAT this year.

Sheilagh Marx
Chairperson

Executive Management Structure



Managing Director's Review

Introduction

The strategic focus of the company in the past financial year was once again aimed at providing the right sized works in the best geographical location at the most economical cost, incorporating the finest and most appropriate available technology.

ERWAT was formed in 1992 and is currently custodian of 19 wastewater care works, treating a combined capacity of some 600 megalitres of wastewater per day. The majority of the operations are in the Ekurhuleni Metropolitan Council (formerly known as Eastern Gauteng) region, while ERWAT also provides services to other metropolitan councils.

The East Rand Water Care Company (ERWAT), the only regionalised commercial wastewater management company in South Africa, provides bulk wastewater conveyance and a highly technical and proficient wastewater treatment service for some 2 000 industries and more than 3,5 million people who have access to sanitation services.

The company is rich in expertise and has been instrumental in developing methods to reduce costs whilst at the same time rendering excellent quality of effluent. With the increasing cost of managing wastewater, ERWAT's leading edge technology coupled with its economy of scale credo presents a cost-effective, environmentally sound water care solution. ERWAT continuously strives to improve the utilisation of the existing infrastructure and makes optimum use of all its resources. The works are managed according to advanced scientific practices whilst at the same time espousing professional ethics.

In the financial year under review, the company continued to function in an innovative and cost-effective manner, despite being faced with ever increasing demands for capacity and the consequential financial challenges.

Group results

RAND MILLIONS	2007	2008
Total Income	220.6	257.9
Expenditure	217.5	251.8
Retained earnings	3.1	6.1
Depreciation	13.0	19.4
Net surplus/(deficit)	(9.9)	13.3
Net surplus for the year	3.1	6.1

Financial results

The 2007/08 achievement

The net profit of the group for the year was R6.1m (2007: R3.1m). These figures after adjusting for subsidiary company losses of R4.6m and providing for depreciation of civil infrastructure of R3.7m (2007: R nil). Also comparatives have been adjusted for the prior year civil depreciation.

Funding plan

The ERWAT funding plan incorporates the identification of capacity needs, using a facilities development plan, which enables the company to determine with a reasonable degree of accuracy when and where facilities are needed. This information is used in conjunction with a long-term financial model indicating the impact of large projects on cash flows and tariffs for the Company. The optimal timing of these projects coupled to negotiating the best possible terms and conditions on long term loan funding and careful cash management has enabled ERWAT to keep tariffs to a minimum over the fifteen years of its existence.

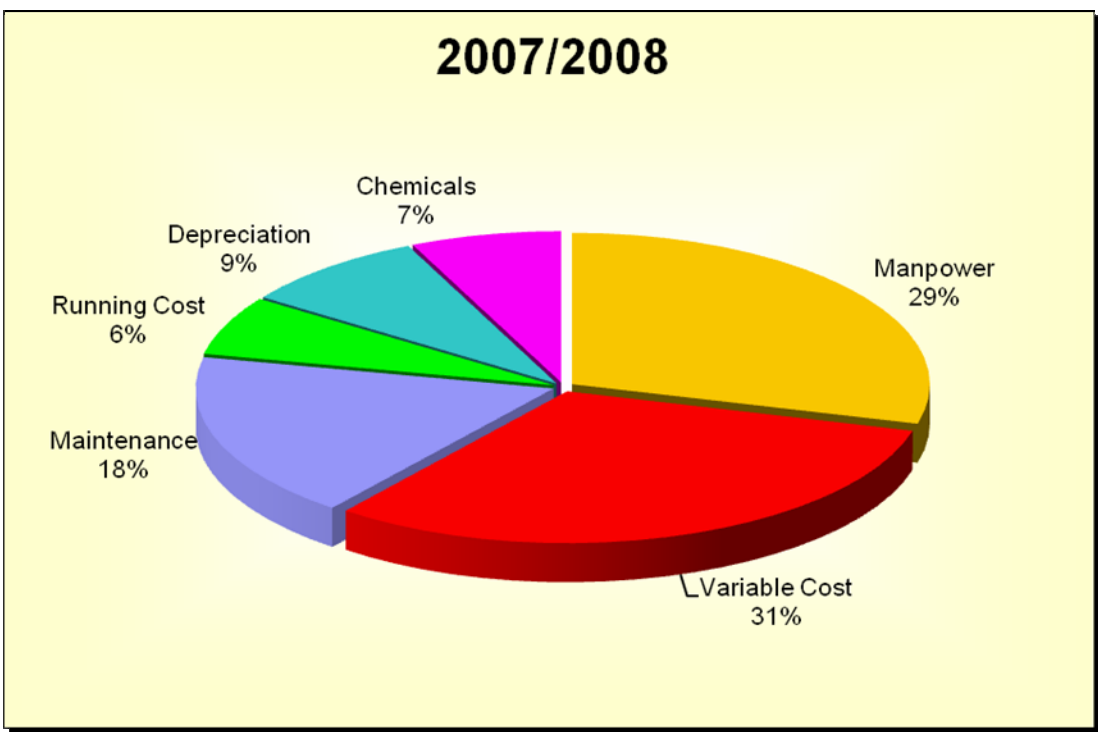
With the assistance of the Ekurhuleni Metropolitan Municipality a Municipal Infrastructure Grant was awarded to ERWAT for the development of a sludge management strategy.

Tariffs

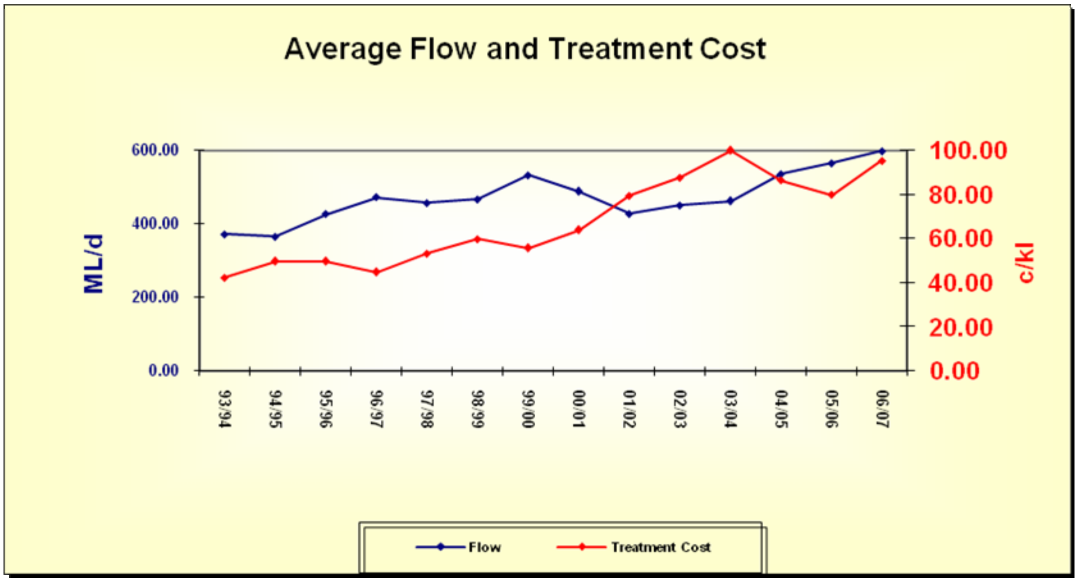
The establishment of ERWAT at the end of 1992 has benefited the region greatly in terms of the cost of wastewater purification. In 1992/93 (at the establishment of ERWAT) the average tariff of wastewater treated was 51.52 cents per kilolitre (c/kl). If the cost of wastewater treatment had risen with the average consumer price under over the past fifteen years, the treatment cost for the 2007/08 year would have been 141.30 cents per kilolitres (c/kl). Instead, as a result of ERWAT and the economies of scale we have achieved, in 2007/08 the average tariff was 94.02 cents per kilolitre (c/kl), which reflects an average increase over the period of only 4.4 percent per year. This represents a saving for the members of approximately R737 million over the past fifteen years.

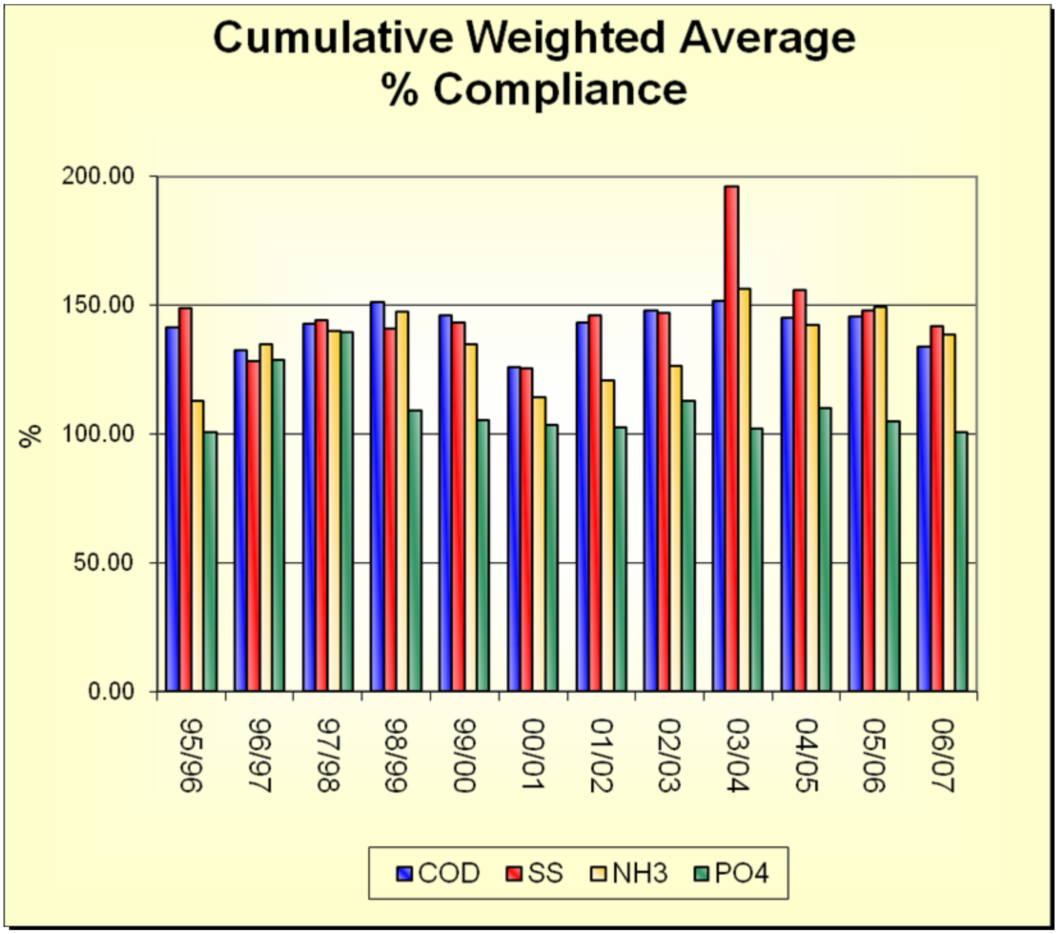
The water business

2007/08 % breakdown of budget (Operations)



The fluctuating economy, the rapid growth in housing and an increased demand for capacity have caused enormous pressure on ERWAT's wastewater care works, but innovation and the resourceful application of expertise ensured that the treatment cost did not go over the 100 cents per kilolitre (c/kl), even in these challenging conditions.





An increase in daily flow and daily organic loading is directly proportional to the increase in sludge production.

Sludge management

With the Department of Water Affairs and Forestry (DWAF) imposing very strict standards concerning sludge handling and disposal, the Operations Department has aligned itself by the implementation of a sustainable sludge management strategy.

The draft design of the new sludge handling facilities, including new mechanical dewatering, is in progress at the Vlakplaats wastewater care works (WCW).

The planning of new sludge dewatering facilities is also in progress at the Waterval WCW.

Retrofitting

Primary settling tanks and humus tanks at Rondebult WCW and Dekema WCW were retrofitted by installing modern bridges and scraper mechanisms. This will enhance performance and assist in achieving best results.

Two bio-filters at the Rondebult WCW were also retrofitted with new distribution arms and centre columns. This programme will continue over the next three financial years.

Provision of capacity

The construction of the new 50 megalitres per day Waterval WCW module 4 is in progress, with expected commissioning towards the end of 2008.

Planning is currently in the preliminary stage for a 50 Ml/day expansion of the Welgedacht WCW near Springs. This expansion will not only cater for Welgedacht WCW, but will also bring relief to JP Marais WCW, that is currently running over capacity. The expansion will also cater for the Rynfield flow in the future, should the decision to decommission Rynfield WCW be implemented.

Ongoing research

Ongoing research and innovation drive the company’s operational competitiveness and apply to every aspect of ERWAT’s day-to-day utilities, from management activities to scientific and technical services.

Operational training

People are ERWAT’s most valuable asset. During this past financial year the Operations Department has aligned itself with a training philosophy that is based on maintaining the values of the company through developing the technical and managerial skills of the employees.

Development

New module for Waterval WCW

Progress with the construction of 50Ml/d extension to the Waterval WCW that will make this works the largest plant in ERWAT, is well underway. This module with a capital outlay of R165 million will also comply with the stricter discharge requirements of the Department of Water Affairs and Forestry. As part of this project it is further planned to extend the present digester capacity and filter belt presses at an estimate amount of R110 million.

New sludge guidelines

The Department of Water Affairs and Forestry, in co-operation with the Water Research Commission embarked on a process to develop new sludge guidelines that has developed to the stage where some of it has been approved and the balance is in an advanced stage. A lot of attention was given in revising the present status quo of all the plants and re-classification of the sludge produced as a basic requirement in preparation of a revised sludge strategy for ERWAT that will be completed during the next financial year.

The Rhodes BioSURE® Process

The Rhodes BioSURE® Process technology was launched in January 2005 at ERWAT Ancor WCW. A plant has subsequently been established at Ancor WCW to treat 10 megalitres per day of minewater from Grootvlei Mine and remove sulphates from the water, using sewage sludge as energy source for the biological process. With the operation of the plant, sulphate reduction levels of up to 85% are achieved.

Laboratory Services

ERWAT Laboratory Services is a well-known name in the industry. It provides a wide range of scientific support services not only to ERWAT, but also to the private sector, industries, local authorities, the Department of Water Affairs and Forestry, governmental institutions and any other institution needing solutions to water-related problems.

The laboratory is SANAS 17025 accredited for chemical and microbiological analysis.

As the demand for high-tech sophisticated types of analyses increases, ERWAT Laboratory Services remains agile and adapts to remain in a position to satisfy these demands, apart from the normal required water and wastewater analyses.

As such, microbiological testing was improved in the past financial year by introducing the Polimarised Chain Reaction (PCR) method, where DNA testing is used for bacteriological water testing. The new developments go hand in hand with the need for more accurate results, faster turn-around time and the spread in diversity analyses for clients.

ERWAT Laboratory Services is also proud to be the service provider as well as the implementing agent for some of the projects by the Department of Water Affairs and Forestry (DWAF).

Other areas of operations include some projects in Limpopo and Mpumalanga as well as the DWAF 51 Project, evaluating the effectiveness of wastewater treatment plants throughout the country. The huge northern and southern regions of Gauteng require close monitoring to manage the high impact of industry. ERWAT is responsible for the analysis of these samples.

As a result of its considerable expertise on industrial effluent plant operations, ERWAT Laboratory Services currently operates twelve industrial effluent plants on-site at various industries.

Human Capital Development and Relations

Remuneration strategy

ERWAT's reward strategy complements the objectives of ERWAT by attracting and retaining highly skilled achievement-oriented individuals to meet business needs, retaining value-adding individuals through market-related and performance driven remuneration and encouraging the development of skills and competencies required to meet current and future business needs.

Employee wellness

Within ERWAT employee wellness is a business imperative and the company strives to maintain and promote a healthy employee profile. The concentration on industry specific health-related problems has allowed the company to implement a range of interventions that had a huge impact on the overall understanding of the threat of waterborne diseases.

Employee relations

ERWAT enjoys a mature relationship with employees and all stakeholders. This can be largely attributed to the good leadership provided by shop stewards and union officials. Industrial relations issues raised by employees are attended to quickly and effectively with very few disputes referred to the CCMA or Bargaining Council.

Training and development

The company continued with ongoing training initiatives, such as Adult Basic Education and Training (ABET), Safety, WEFTEC wastewater treatment training for international candidates, as well as external training for some occupational groups.

Marketing and communication

ERWAT develops various marketing and communication strategies every year to ensure the visibility of ERWAT in the market, to communicate with all its target markets and to reach current and potential clients.

These strategies involve advertisements in trade magazines, exhibition stands at major trade shows, promotions, sponsorships, publicity in local and national media, an interactive webpage and various publications.

ERWAT also takes its social responsibility role seriously and launches numerous campaigns in various communities every year.

These campaigns are held to establish and raise awareness about the group amongst its communities and organisations such as corporate companies, secondary and high schools, youth organisations, NGO's and welfare organisations. ERWAT also participates in a number of national events like National Water Week, National Sanitation Week and National Youth Day.

The company also often partners with other role-players in various community projects. ERWAT is one of the full sponsors of the "Masidlaleni" (*Let's Play*) Sport Development Programme initiated by the Mayor of the Ekurhuleni Metropolitan Municipality and the Mayoral Golf Day and equally supports many other initiatives by the Metro.

Acknowledgement

In conclusion, I would like to express my gratitude towards our knowledgeable Board of Directors for their guidance and leadership. My heartfelt appreciation also goes to the dedicated ERWAT management and staff, as well as our business partners, shareholders and customers.

Without this expertise and dedication, this company would not be able to present such favourable results every year.

Pat Twala
Managing Director

Corporate Governance

Introduction

Sound corporate governance structures are in operation at ERWAT, referring to the set of processes, customs, policies, laws and institutions affecting the way in which the company is directed, administered and controlled.

ERWAT supports the concept of more transparent and accountable corporate governance, as contained in the King Committee Report.

The Board of Directors

The Board of four non-executive Directors and the Managing Director meet once a month under the chairmanship of Ms Sheilagh Marx to consider issues, make resolutions and take note of departmental activities. The Directors are normally appointed for a period of 36 months.

Audit Committee

In terms of the Local Government Municipal Finance Management Act, ERWAT falls under the jurisdiction of the Ekurhuleni Metropolitan Municipality's Audit Committee.

Remuneration Committee

The Remuneration Committee consists of the Managing Director, Mr Pat Twala, ERWAT Director Mr George Ratswana, Executive Manager Human Resources, Mr Rodney Barnes, who attends the meetings and acts as secretary for the meeting as well as Mr Dario Bettoni, representing Ertec (Pty) Ltd. This committee reviews remuneration policies and practices in the company and determines levels of remuneration and terms and conditions of employment of senior executives.

Code of ethics

ERWAT is committed to a strong set of values, which is shared, known and supported by everyone in the company. ERWAT strives to conduct its business in an ethical manner, and has adopted a set of values dealing with beliefs, norms, standards, people, traditions and customs.

These values are vision, integrity, excellence, enablement and customer orientation.

Financial statements

The Directors assume responsibility for preparing financial statements that fairly present the financial position of the Group at the end of each financial year and the result of its operations and cash flows for that year. The external auditors are responsible for independent reviews and reporting on those financial statements.

The financial statements set out in the report have been prepared by management in accordance with generally accepted and appropriate accounting practice. These accounting policies have been consistently applied, and are supported by reasonable and prudent judgements and estimates.

Internal control

The Group's internal accounting controls and systems are designed to provide reasonable assurance regarding the integrity and reliability of its financial information and to safeguard its assets. These controls include proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties. They are monitored throughout the Group and all employees are required to act with integrity under all circumstances. The internal audit function is now performed by the Internal Audit Department of the Ekurhuleni Metropolitan Municipality.

Going concern

The Directors have no reason to believe the Company or the Group will not be entering the foreseeable future based on forecast and available cash resources. The viability of the Company and the Group is supported by the financial statements.

Board of Directors

The directors of the company during the year under review and at the date of this report were:

Ms S C Marx (Chairperson)
N P Twala (Managing)
Mr Arie Korf
Mr George Ratswana
Ms Thobile Magerman

Observers:

Mr M G H Akoon
Mr J Vorster

Secretary
Mr W I Louw

Approval of annual financial statements

The annual financial statements have been approved by the Board of Directors and are signed on its behalf by:

S Marx	P Twala
Chairperson	Managing Director

POSTAL ADDRESS
P O Box 13106
NORKEM PARK
1631

BUSINESS ADDRESS
Bapsfontein Road
KEMPTON PARK

East Rand Water Care Company (ERWAT)

(an association incorporated in terms
of section 21 of the Companies Act)
(Registration number 1992/005753/08)

Annual financial statements
for the year ended 30 June 2008

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008

INDEX	**Page**

EAST RAND WATER CARE COMPANY (ERWAT)
(**an association incorporated in terms of section 21 of the Companies Act)**
(**Registration number 1992/005753/08)**

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
for the year ended 30 June 2008

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of East Rand Water Care Company (ERWAT) and its subsidiaries. The financial statements presented on pages 10 to 13 have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice, and include amounts based on judgments and estimates made by management.

The going concern basis has been adopted in preparing the financial statements. Due to the requirements of the Municipal Systems Amendment Act the Group is in a process of unbundling,the effect of which is that some Group companies may be deregistered in the 2009 financial year.
These financial statements support the viability of the group and the company.

The financial statements have been audited by the independent auditors, Auditor General, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The audit report of Auditor General is presented on pages 5 - 9.

The financial statements were approved by the board of directors on …………….. and signed on its behalf .

Chairperson	**Managing Director**
S Marx	**P Twala**

CERTIFICATE BY CHIEF FINANCIAL OFFICER
for the year ended 30 June 2008

In my opinion as Chief Financial Officer , I hereby confirm, in terms of the Municipal Finance Management Act, that for the year ended 30 June 2008, the Municipal Entity has lodged with the Municipal Manager all such returns as are required of a Municipal Entity in terms of this Act and that all such returns are true, correct and up to date.

W I Louw
Chief Financial Officer

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

DIRECTORS' REPORT
for the year ended 30 June 2008

The directors present their report which forms part of the audited annual financial statements of the company and the group for the year ended 30 June 2008.

PRINCIPAL ACTIVITY OF THE GROUP AND COMPANY

The principal activity of the company and the group is the conveyance and treatment of waste water, and the provision of related engineering services and products.

FINANCIAL RESULTS

The net profit of the group for the year was R6.085m (2007: R3.069m). These figures are after adjusting for subsidiary company losses of R4.684m , providing for depreciation of civil infrastructure of R3.733m (2007: nil) and releasing of grants R4.098m (2007:nil).
The adjustments were in terms of the GAAP standards and is a change in the basis of estimates with prior year adjustments. Also comparatives have been adjusted for the prior year civil depreciation.
Detailed financial statements are set out on pages 10-13 .

SHARE CAPITAL

The company does not have share capital since it is a section 21 company.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors are not aware of any matter or circumstances arising since the end of the financial year,other than the unbundling of the Group referred to in the statement of responsibility to comply with the requirements of the Municipal Systems Amendment Act,not otherwise dealt with in the annual financial statements,that would significantly affect the operations of the company or the group or the results of those operations.

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

DIRECTORS' REPORT (continued)
for the year ended 30 June 2008

SUBSIDIARIES AND JOINT VENTURES

Interest in subsidiaries

The following information relates to the company's financial interest in its subsidiaries:

Ertec (Pty) Ltd and Aquafrica (Pty) Ltd were wholly owned subsidiaries of the company throughout the year. The nature of the companies businesses are the engineering, construction and maintenance in the water services industry, and in the operation and maintenance of bulk and retail water utilities respectively. Details of the holding company's interest in these subsidiaries are set out in note 7 of the financial statements.

The holding company's interest in the aggregate profit/(loss) incurred after taxation by these subsidiaries, amounted to R(2 934 000) (2007:R 1 781 000).

Details of holding company's interest

	Issued share capital and proportion held				Indebtedness	
	No. of shares	**%**	**2008 R'000**	**2007 R'000**	**2008 R'000**	**2007 R'000**
COMPANY						
Ertec (Pty) Ltd						
- ordinary shares of R1 each	2,000	100	2,000	2,000	5,108	5,108
Less						
Provision for losses			2,000	-	2,684	-
			-	2,000	2,424	5,108
GROUP						
Khulumanzi Control Systems (Pty) Ltd						
- ordinary shares of R1 each	4,000	100	4	4	4	4
- redeemable preferential shares of R1 each	156,000	100	156	156	156	156

DIRECTORS

The directors of the company during the year under review and at the date of this report were:

P Twala (Managing)
SC Marx (Chairperson)
AW Korf
G Ratswana
TN Magerman

The secretary of the company is W I Louw, whose postal and business addresses are:

PO Box 13106	Bapsfontein Road
NORKEM PARK	KEMPTON PARK
1631	

AUDITORS

The Auditor General is the auditor of the group in terms of the requirements of the Municipal Finance Management Act

REPORT OF THE AUDITORS-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL (THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE EAST RAND WATE CARE COMPANY (PTY) LTD AND ITS SUBSIDIARY, ERTEC (PTY) LTD, FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements of ERWAT (Pty) Ltd which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the director's report, as set out on pages 2 to 31.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these group financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements, and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). The responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the Internation Standards of Auditing and *General Notice 616 of 2008,* issued in *Government Gazette No. 31057 of 15 May 2008* . Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An Audit also includes evaluating the

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the finanicial statements.

7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practise, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by ERWAT (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare its financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Basis for qualified opinion

IAS16: Property, Plant and equipment

10. Assets listed on the asset register with a carrying value amountingto R3 414 222 could not be physically verified. The existence of this assets could therefore not be verified. Alternative audit procedures to verify the existence of assets could not be performed.

11. Asset register details were incomplete. I could therefore not trace various physical assets to the asset register. The completeness of the asset register could therefore not be established. Alternative audit procedures to verify the completeness of the asset register could not be performed.

12. Although the asset register indicated that assets with an acquisition cost amount to R1 844 485 were in use, these assets were fully depreciated. The useful lives of assets were therefore not evaluated at reporting date. The carrying values of mentioned assets could therefore be significantly understated. Alternative audit procedures to verify the carrying values of assets could not be performed.

13. Of the 6 722 individual line items making up the asset register, 1 326 line items had acquisition prices of less that R10 each. The total acquisition cost of mentioned assets was R1 019. The cost of mentioned items could therefore be significantly understated. Alternative audit procedures to verify the cost of mentioned assets could not be performed.

14. Title deeds for fixed property were not presented for audit purposes. Ownership of property could therefore not be verified. Alternative audit procedures to verify the ownership of property could not be performed.

Qualified opinion

12\. In my opinion, except for the effects of the matters described in the Basis for qualified opinion, paragraph, the group financial statements present fairly, in all material respect, the financial position of the ERWAT and group as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury and in the manner required by the MFMA and Companies Act, 1973.

Emphasis of matters

I draw attention to the followinç

Highlighting critically important matters presented or disclosed in the financial statem

Disposal of ERTEC shares

15. Note 27 to the group financial statements, disclose that negotiations were underway, but not concluded at reporting date, for the disposal of the shares in ERTEC (Pty) Ltd. All assets and liabilities will be transferred to ERWAT (Pty) Ltd, the current holding company of ERTEC (Pty) Ltd, on disposal of the shares.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the group financial statements:

Internal controls

16. Section 62 (1)(i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more that one internal control component.

Reporting item	Control enviroment	Risk Assessment	Control activities	Informatio n and	Monitoring
Property, plant and equipment	X	X	X		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk Assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Reporting item	Control enviroment	Risk Assessment	Control activities	Informatio n and	Monitoring

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independants methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

17. In terms of section 93K(b), of the Municipal Systems Act 2000, (Act No. 32 of 2000), a municipal entity may not acquire or hold an interest in a company or any other corporate body, including a trust. Notwithstanding this provision, ERWAT (Pty) held a 100% interest in ERTEC (Pty) Ltd during the period under review.

18. In terms of section 89(a) of the MFMA, the parent municipality of a municipal entity must determine the upper limits of the salary, allowances and other benefits of the chief executive officer and senior managers of the entity. Evidence of adherence to this requirement was not provided for audit purposes.

19. Income tax returns for the 2006 and 2007 tax years in respect of ERTEC (Pty) Ltd were not submitted to the South African Revenue Services thereby contravening the requirements of the Income Tax Act, 1962, in respect of timeous submission of information and income tax returns.

Matters of governance

20. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA		X
Internal Audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA		X

Matters of governance	Yes	No
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report	X	
• The financial statement submitted for audit were not subject to any material amendments resulting from the audit		X
• No significant difficulties were experienced during the audit concerning delays or unavailibility of expected information and/or the unavailibility of senior manageme		X
• The prior year's external audit recommendations have been substantially implemented.		X

Unaudited supplementary schedules

21. The municipal entity provided supplementary information in the group financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements* . The supplementary budget information set out on pages 11 and 30 does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

26. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

27. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

22 I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

23. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (Performance information)

Late submission of performance information

25. Performance information was submitted during the completion phase of the audit. The performance information was therefore not subjected to audit. The company's internal financial reporting and management processes did not facilitate timeous submission of this information.

APPRECIATION

26. The assistance rendered by the staff of ERWAT (Pty) Ltd and its subsidiary, ERTEC (Pty) Ltd, during the audit is sincerely appreciated.

Johannesburg
30 November 2008

AUDITOR-GENERAL

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

STATEMENT OF FINANCIAL POSITION
at 30 June 2008

	Notes	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
NET ASSETS AND LIABILITIES					
Net assets		**177,461**	**171,404**	**177,461**	**173,223**
Capitalisation reserve	12	-	-	-	-
Available for sale revaluation reserve	13	2,155	2,185	2,155	2,185
Accumulated surplus	11	175,306	169,220	175,306	171,039
Non-current liabilities		**447,705**	**458,317**	**447,705**	**458,317**
Long - term borrowings	14	168,606	182,107	168,606	182,107
Deferred income	22	279,099	276,210	279,099	276,210
Deferred taxation	15	-	-	-	-
		43,612	**42,709**	**43,694**	**43,335**
Current liabilities					
Trade and other payables	16	19,910	21,145	19,992	21,771
Current portion of long - term borrowings	14	9,110	8,703	9,110	8,703
Current portion of deferred income	22	5,573	4,098	5,573	4,098
Provisions	16	9,019	8,763	9,019	8,763
Total Net Assets and Liabilities		**668,777**	**672,430**	**668,860**	**674,875**
ASSETS					
Non-current assets		**627,486**	**605,091**	**629,910**	**612,264**
Property,plant and equipment	5	624,998	584,618	624,998	584,618
Investment in subsidiaries	7	-	-	2,424	7,176
Available for sale investments	8	2,488	20,469	2,488	20,469
Intangibles	6	-	3	-	-
Current assets		**41,291**	**67,339**	**38,950**	**62,611**
Debtors	9	29,306	33,808	28,757	32,329
Bank balances and cash	10	11,985	33,531	10,193	30,282
Total Assets		**668,777**	**672,430**	**668,860**	**674,875**

EAST RAND WATER CARE COMPANY (ERWAT)
(Registration number 1992/005753/08)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2008

	Notes	Actual Group 2008 R'000	Actual Group 2007 R'000	Actual Company 2008 R'000	Actual Company 2007 R'000		Budget Group 2008 R'000	Budget Group 2007 R'000	Budget Company 2008 R'000	Budget Company 2007 R'000
REVENUE										
Dividend received		103	71	103	71		45	20	45	20
Interest received - investments		4	3	4	3		-	-	-	-
Interest received - other		3,139	4,021	2,901	3,944		2,000	900	2,000	900
User charges		193,077	172,969	193,077	172,969		193,077	164,483	193,077	164,483
Other income		53,440	43,545	53,520	33,317		41,623	25,067	41,623	25,067
Write back loan from Ekurhuleni		4,000	-	4,000	-		-	-	-	-
Gains on disposal of property , plant and equipment		-	-	-	-		-	-	-	-
Release of grant - Plant		1,753	-	1,753	-		-	-	-	-
Release of grant - Buildings		2,214	-	2,214	-		-	-	-	-
Release of grant - Land		131	-	131	-		-	-	-	-
Total Revenue	2	257,861	220,609	257,703	210,304		236,745	190,470	236,745	190,470
EXPENDITURE										
Employee related costs		79,863	74,656	79,847	71,304		84,831	63,625	84,831	63,625
Remuneration of Directors		345	343	303	301		330	485	330	485
Depreciation		15,639	12,992	15,639	12,893		15,349	14,162	15,349	14,162
Depreciation on own assets		1,519	-	1,519	-		-	-	-	-
Depreciation on grant assets		2,214	-	2,214	-		-	-	-	-
Repairs and maintenance		38,224	26,054	38,224	26,050		25,004	23,725	25,004	23,725
Impact of discounting of receivables		705	-	705	-		-	-	-	-
Interest paid	3	22,860	17,643	22,860	17,636		20,689	10,500	20,689	10,500
Bulk purchases		54,130	55,071	52,472	51,554		54,766	50,855	54,766	50,855
General expenses		35,985	30,692	34,677	29,278		35,776	27,118	35,776	27,118
Loss on disposal of property , plant and equipment		292	89	292	-		-	-	-	-
Subsidary company lossses		-	-	4,684	-		-	-	-	-
Total Expenditure		251,776	217,540	253,436	209,016	-	236,745	190,470	236,745	190,470
SURPLUS/(DEFICIT)		6,085	3,069	4,267	1,288		-	-	-	-
Taxation	4	-	-	-	-		-	-	-	-
Surplus/(deficit) from ordinary activities		6,085	3,069	4,267	1,288		-	-	-	-
Attributable surplus/(deficit) of joint ventures		-	-	-	-		-	-	-	-
NET SURPLUS/(DEFICIT) for the period		6,085	3,069	4,267	1,288		-	-	-	-

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 30 June 2008

	Notes	Accumulated Surplus/(Deficit) R'000	Capitalisation reserve R'000	Investment Fair Value Adjustment reserve R'000	Total R'000
COMPANY					
Balance at 30 June 2006		148,530	214,110	1,534	364,173
Available for sale revaluation reserve		-	-	651	651
Grant credit grant assets	22.2	26,373	-	-	26,373
Grant credit grant land	22.2	805	-	-	805
Grant credit grant buildings	22.2	16,024			
Civil infrastructure arrear depreiation - grant assets		(16,024)	-	-	(16,024)
Civil infrastructure arrear depreiation - own assets		(5,957)	-	-	(5,957)
Capitalisation reserve transferred to Deferred income		-	(214,110)	-	(214,110)
			-	-	-
Net surplus for the year		1,288	-	-	1,288
Balance at 30 June 2007		171,039	-	2,185	173,223
Available for sale revaluation reserve		-	-	(30)	(30)
Net surplus for the year		4,267	-	-	4,267
Balance at 30 June 2008		175,306	-	2,155	177,461
GROUP					
Balance at 30 June 2006		144,930	214,110	1,534	360,574
Available for sale revaluation reserve		-	-	651	651
Grant credit grant assets	22.2	26,373	-	-	26,373
Grant credit grant land	22.2	805	-	-	805
Grant credit grant buildings	22.2	16,024			
Civil infrastructure arrear depreiation - grant assets		(16,024)	-	-	(16,024)
Civil infrastructure arrear depreiation - own assets		(5,957)	-	-	(5,957)
Capitalisation reserve transferred to Deferred income		-	(214,110)	-	(214,110)
			-	-	-
Net surplus for the year		3,069	-	-	3,069
Balance at 30 June 2007		169,220	-	2,185	171,405
Available for sale revaluation reserve		-	-	(30)	(30)
Net surplus for the year		6,086	-	-	6,086
Balance at 30 June 2008		175,306	-	2,155	177,461

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

CASH FLOW STATEMENT
for the year ended 30 June 2008

	Notes	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts					
User charges		193,077	172,969	193,077	172,969
Sundry revenue		62,200	49,854	62,042	39,549
Payments					
Employee costs		(79,863)	(74,656)	(79,847)	(71,304)
Suppliers		(136,224)	(128,334)	(134,388)	(125,669)
Cash generated from operations	17.1	39,190	19,833	40,884	15,545
Grant received from MIG		6,249	50,580	6,249	50,580
Interest received		3,143	4,024	2,905	3,947
Interest paid		(22,860)	(17,643)	(22,860)	(17,636)
Dividends received		103	71	103	71
Normal tax paid		-	281	-	-
Net cash inflow from operating activities		25,825	57,146	27,282	52,507
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment		(56,230)	(90,098)	(56,230)	(90,098)
Increase in other investments		17,952	(18,023)	17,952	(18,023)
(Increase)/decrease in interest in subsidiaries			-	-	(4)
Net cash outflow from investing activities		(38,277)	(108,121)	(38,277)	(108,125)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in Long term borrowings		(9,094)	85,045	(9,094)	85,045
Net cash inflow from financing activities		(9,094)	85,045	(9,094)	85,045
Net increase in cash and cash equivalents		(21,546)	32,551	(20,090)	27,909
Cash and cash equivalents at start of period		33,531	980	30,282	2,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD		11,985	33,531	10,193	30,282

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2008

1. ACCOUNTING POLICIES

The principal accounting policies of the group adopted in the preparation of these consolidated financial statements are set out below and are consistent with those applied in the previous year and comply with South African Municipal Annual Financial Statements of Generally Recognised Accounting Practice.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the South African Statements of Generally accepted accounting Practises (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

STANDARD OF GRAP	REPLACED STATEMENT OF GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1,2, &3 has resulted in the following significant changes in the presentation of the financial statements:

1 Terminology differences

STANDARD OF GRAP	REPLACED STATEMENT OF GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus / deficit for the period	Profit / loss for the period
Accumulated surplus / deficit	Retained earnings
Contributions from owners	Share capital
Distribution to owners	Dividends
Reporting date	Balance sheet date

2 The cash flow statement can only be prepared in accordance with the direct method.

3 Specific information such as:
a. Receivables from non exchange transactions, including taxes and transfers,
b. Taxes and transfers payable,
c. Trade and other payables from non exchange transactions,
must be presented separately on the statement of financial position.

4 The amount and nature of any restrictions on cash balances is required to be disclosed.

CONSOLIDATION

Subsidiary undertakings, which are those companies in which the group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between the group companies have been eliminated. Separate disclosure is made of minority interests.

A listing of the group's subsidiaries is set out in note 7 to the annual financial statements.

JOINT VENTURES

Investments in jointly controlled entities are accounted for by the equity method. Further details about the joint ventures are shown in note 8 to the annual financial statements.

INVESTMENTS IN FINANCIAL INSTRUMENTS

The company has classified its Investment in Old Mutual Unit Trusts as Avaliable for Sale Investments. The investments are marked to market on an annual basis, with changes in fair value being recognised directly in equity.

BORROWING COSTS

Interest costs are charged against income in the period in which they are incurred.

GOVERNMENT GRANTS

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the periods necessary to match the grants with the related costs which they are intended to compensate.The deferred income relating to government grants are recognised on the following basis:

- Capital contributions on plant and equipment over the estimated useful life of of plant and equipment.
- Income-related grants subsiding expenses: credited the related expense items as recovery of costs

PROPERTY, PLANT AND EQUIPMENT

Property,plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset (less its residual value) over its estimated useful life as follows:

Implements and machinery	20%
Water care works	6.67%
Motor vehicles	25%
Furniture and equipment	10-33%

Land is not depreciated. Buildings and civil structures on the water care works are depreciated on a straight line bases over an estimated useful life of eighty (80) years. The remaining useful life of these asset's are re-evaluated in conjunction with an external consulting engineer every three years and depreciation adjusted accordingly. The latest estimates were done during the 2007/2008 financial year.

Monitoring stations are written off as an expense in the year of purchase.

Replacement costs of machinery and equipment that form an integral part of water care works are written off as an expense in the year of purchase and are shown as renewal expenditure.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount(I.e.impairment losses are recognised).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

LEASED ASSETS: RIGHT OF USE

The company has exclusive rights to use certain leased water care works for specified periods in return for a series of payments. These rights are capitalised and are depreciated over the repayment period of the loan. Lease charges are amortised over the duration of the loan agreement by the effective interest rate method, which takes into account the effective interest charge on the lease.

INTANGIBLES

Expenditure on licenses is capitalised and amortised using the straight-line method over its useful life of five years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary.

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of net assets of the acquired subsidiary at the date of acquisition.
The carrying amount of goodwill is reviewed annually and adjusted
for impairment where it is considered necessary.

CONTRACTS IN PROGRESS

Profits or losses in respect of long term contracts are recognised on the stage of completion method. The stage of completion is determined on the basis of the proportion of costs incurred for work performed on the contract at the balance sheet date to the estimated total costs of the contract. Anticipated losses on incomplete contracts are fully provided for as soon as the loss is foreseen and includes any loss related to future work on the contract. Contracts in progress are stated at cost plus profit taken to date less any provision for losses.

CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash includes cash on hand and deposits held on call with banks.

DEFERRED TAXATION

Deferred taxation liabilities are recognised for all taxable temporary differences. Deferred taxation assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of of financial performance. Such balances are translated at year-end exchange rates.

REVENUE

Revenue comprises the invoiced value of services rendered in respect of water purification, laboratory services by products sold, and maintenance of purification installations, as well as rent received and the value of certified work on long term contracts as at balance sheet date. It excludes investment and other non-operating income and value added taxation. Consolidated revenue excludes sales to group companies. Revenue arising from rent received is recognised on an accrual basis.

RESEARCH AND DEVELOPMENT

Research costs are written off as incurred. Development costs are written off as incurred unless the costs are considered recoverable from probable future cost savings or sales revenue. Where development costs are deferred, they are written off on the straight-line basis over the life of the process or product, subject to a maximum of five years. The amortisation begins from the commencement of the commercial production of the product or use of the process to which they relate.

RETIREMENT BENEFIT INFORMATION

The ERWAT group operates two defined contribution plans, the assets of which are held in separate trustee-administered funds. The defined contribution plans are funded by payments from employees and the relevant group companies, taking account of the recommendations of independent qualified actuaries. The group's contributions to the defined contribution plans and medical aid plans are charged to the statement of financial performance in the year to which they relate.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another instrument. A financial asset or a financial liability is only recognised when the company becomes a party to the contractual provisions of the instrument.
Financial instruments carried on the balance sheet include cash and bank balances, available for sale investments , receivables, trade creditors and borrowings.
All financial instruments are initially valued at fair value. Transaction costs are expensed. After initial recognition , the company measures accounts receivable , accounts payable and borrowings at amortised cost using the effective interest rate method while cash and cash equivalents and available for sale investments carried at fair value.

AVAILABLE FOR SALE REVALUATION RESERVE

Available for sale financial assets are held for an indefinate period of time and may be sold in response to needs for liquidity or changes in equity prices. Unrealised gains or losses arising from the changes in the fair value of AFS assets are recognised in equity. On disposal of AFS assets , the fair value of adjustments accumulated in equity are recognised in the statement of financial performance.

CAPITAL RESERVE

The transfer of various water care works and regional outfall sewers from the Ekurhuleni Metropolitan Council to ERWAT at no cost or at a reduced value are recognised in Capital reserve at fair value on the date of transfer. These land and buildings are brought to account at existing market value at the date of transfer by crediting this reserve. The Capial Reserve has now been transferred to Deferred Income and is recognised as income over the remaining life of the asset in line with the depreciation write off. This change as the correction of a fundamental error has been applied retrospectively and adjustments made to the comparative figures.

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
2. SURPLUS FROM OPERATIONS				
Operating profit is arrived at after taking into account the following:				
Revenue from				
- Rendering of services	193,077	172,969	193,077	172,969
- Laboratory income	20,124	16,346	20,124	16,346
- Sundry income	41,517	27,270	41,597	17,042
- Interest received	3,143	4,024	2,905	3,947
	257,861	220,609	257,703	210,304
Auditor's remuneration				
-Audit fee				
- Current year	650	615	422	367
Depreciation				
- Buildings	5,094	3,780	5,094	3,780
- Furniture and equipment	(420)	491	(420)	491
- Implements and machinery	2,091	2,553	2,091	2,523
- Motor vehicles	638	653	638	584
- Water care works: owned	9,505	9,237	9,505	9,237
- Water care works: right of use	11	11	11	11
	16,919	16,725	16,919	16,626
Net (loss)/ profit on disposal of property plant and equipment	292	89	292	-

Directors' remuneration

	Total R'000	Remuneration R'000	Allowances R'000	Contributions Pension & Medical R'000
Executive directors				
MP Twala	1,120	735	265	120
Non-executive directors				
SC Marx	84	79	5	-
S Ratswana	71	66	5	-
AW Korf	88	66	22	-
TN Magerman (Msomi)	112	66	46	-
	355	277	78	-
Senior Managers (6)				
	4,887	2,902	1,364	621

Operating leases - equipment	1,090	1,033	1,090	1,008

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
2. SURPLUS FROM OPERATIONS (continued)				
Staff costs				
- Salaries, wages, benefits and allowances	76,179	71,022	76,163	67,670
- Incentive reward scheme	3,684	3,634	3,684	3,634
	79,863	74,656	79,847	71,304
Number of persons employed by the group during the year				
- Full time	406	415	406	405
- Part time	115	93	115	65
	521	508	521	470
Research and development costs expended	2,290	1,587	2,290	1,587
Income from investments:				
- Dividend income: listed investments	60	71	60	71
- Interest income: interest received	3,143	4,024	2,905	3,947
	3,203	4,095	2,965	4,018

3. FINANCING COSTS

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Interest paid: Borrowings	22,860	17,643	22,860	17,636

4. TAXATION

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
S A Normal tax	-	-	-	-
Current tax	-	-	-	-
Prior year	-	-	-	-
- current year	-	-	-	-
Deferred taxation	-	-	-	-
- current year	-	-	-	-
- prior year	-	-	-	-

Tax reconciliation

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Accounting Profit(Loss)	6,085	3,069	4,267	1,288
Taxation at 28%	1,704	890	1,238	361
Temporary differences not provided for	-	141	-	-
Tax loss not provided for	843	-	-	-
Tax loss utilised	-	(768)	-	-
Non deductible expenses	8	111	-	-
Non taxable income	(2,555)	(374)	(1,238)	(361)
Taxation expense	-	-	-	-

5. PROPERTY, PLANT AND EQUIPMENT

COMPANY	**Land and buildings**	**Implements and machinery**	**Water care works: owned**	**Water care works: right of use**	**Motor Vehicles**	**Furniture & Equipment**	**Work in Progress**	**Total**
Year ended 30 June 2008	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**
Opening net carrying amount	284,258	6,014	66,418	14	1,491	2,136	224,287	584,618
Gross carrying amount	306,239	22,775	147,294	10,604	7,472	8,473	224,287	727,144
Accumulated depreciation	(21,981)	(16,761)	(80,876)	(10,590)	(5,981)	(6,337)	-	(142,526)
Additions	(7,805)	3,367	296	-	2,404	776	59,643	58,680
Disposal / Transfers	7,911	(774)	(207)	-	(189)	(1,551)	(7,933)	(2,743)
Depreciation charge	(4,052)	(2,091)	(9,505)	(11)	(638)	420	-	(15,877)
Depreciation charge reverse	4,052	-	-	-	-	-	-	4,052
Depreciation charge new	(3,733)	-	-	-	-	-	-	(3,733)
Closing net carrying amount	280,631	6,516	57,002	3	3,068	1,781	275,997	624,998
Gross carrying amount	306,344	25,368	147,384	10,604	9,687	7,698	275,997	783,081
Accumulated depreciation	(25,714)	(18,852)	(90,381)	(10,601)	(6,619)	(5,917)	-	(158,084)

Year ended 30 June 2007								
Opening net carrying amount	286,824	6,480	70,067	25	1,277	2,317	144,109	511,099
Gross carrying amount	305,072	20,718	141,706	10,604	6,674	8,163	144,109	637,046
2006 adjjustment	(18,248)	-	-	-	-	-	-	(18,248)
Accumulated depreciation	-	(14,238)	(71,639)	(10,579)	(5,397)	(5,846)	-	(107,699)
Additions	(18,718)	2,069	5,588	-	838	348	100,063	90,188
Disposal / Transfers	19,885	(12)	-	-	(40)	(38)	(19,885)	(90)
2007 adjustment	(3,733)	-	-	-	-	-	-	(3,733)
Depreciation charge	-	(2,523)	(9,237)	(11)	(584)	(491)	-	(12,846)
Closing net carrying amount	284,258	6,014	66,418	14	1,491	2,136	224,287	584,618
Gross carrying amount	306,239	22,775	147,294	10,604	7,472	8,473	224,287	727,144
Accumulated depreciation	(21,981)	-	-	-	-	-	-	(21,981)
Accumulated depreciation	-	(16,761)	(80,876)	(10,590)	(5,981)	(6,337)	-	(120,545)

GROUP

Year ended 30 June 2008								
Opening net carrying amount	284,258	6,013	66,418	14	1,491	2,137	224,287	584,618
Gross carrying amount	306,239	23,295	147,294	10,604	8,283	8,816	224,287	728,818
Accumulated depreciation	(21,981)	(17,282)	(80,876)	(10,590)	(6,792)	(6,679)	-	(144,200)
Additions	(7,805)	3,367	296	-	2,404	776	59,643	58,680
Disposal / Transfers	7,911	(774)	(207)	-	(189)	(1,551)	(7,933)	(2,743)
Depreciation charge	(4,052)	(2,091)	(9,505)	(11)	(638)	420	-	(15,877)
Depreciation charge reverse	4,052	-	-	-	-	-	-	4,052
Depreciation charge new	(3,733)	-	-	-	-	-	-	(3,733)
Closing net carrying amount	280,631	6,515	57,002	3	3,068	1,782	275,997	624,998
Gross carrying amount	306,344	25,888	147,384	10,604	10,498	8,041	275,997	784,755
Accumulated depreciation	(25,714)	(19,373)	(90,381)	(10,601)	(7,430)	(6,259)	-	(159,758)

Year ended 30 June 2007								
Opening net carrying amount	286,824	6,502	70,067	25	1,386	2,375	144,109	511,288
Gross carrying amount	305,072	21,250	141,706	10,604	7,525	8,544	144,109	638,810
2006 adjjustment	(18,248)	-	-	-	-	-	-	(18,248)
Accumulated depreciation	-	(14,748)	(71,639)	(10,579)	(6,139)	(6,169)	-	(109,274)
Additions	(18,718)	2,057	5,588	-	798	310	100,063	90,098
Disposal / Transfers	19,885	(12)	-	-	(40)	(38)	(19,885)	(90)
2007 adjustment	(3,733)	-	-	-	-	-	-	(3,733)
Depreciation charge	-	(2,534)	(9,237)	(11)	(653)	(510)	-	(12,945)
Closing net carrying amount	284,258	6,013	66,418	14	1,491	2,137	224,287	584,618
Gross carrying amount	306,239	23,295	147,294	10,604	8,283	8,816	224,287	728,818
Accumulated depreciation	(21,981)	-	-	-	-	-	-	(21,981)
Accumulated depreciation	-	(17,282)	(80,876)	(10,590)	(6,792)	(6,679)	-	(122,219)

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2008

6. INTANGIBLES

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Goodwill				
Opening net carrying amount	3	3	-	-
-Gross carrying amount	3	3	-	-
-Accumulated depreciation	93	93	-	-
-Impairment	(3)			
-Additions	-	-	-	-
-Amortisation for the year	-	-	-	-
Closing net carrying amount	-	3	-	-
-Gross carrying amount	96	96	-	-
-Accumulated depreciation	96	93	-	-

7. INVESTMENT IN SUBSIDIARIES

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Ertec (Pty) Ltd				
Shares at cost	-	-	2,000	2,000
Loan owing by subsidiaries	-	-	5,108	5,108
Provision for losses of subsidiary.	-	-	(4,684)	-
Total investment in Subsidiaries	-	-	2,424	7,108
Aquafrica (Pty) Ltd				
Shares at cost	-	-	-	251
Loan owing by subsidiaries	-	-	-	429
Share of accumulated loss at acquisition	-	-	-	(431)
Provision of write down of loan on acquisition of sub.	-	-	-	(180)
	-	-	-	68
Total investment in Subsidiaries	-	-	2,424	7,176

8. AVAILABLE FOR SALE INVESTMENTS

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
INCA	-	18,000	-	18,000
Unit trusts, at fair value				
Old Mutual	2,488	2,469	2,488	2,469
	2,488	20,469	2,488	20,469

9. DEBTORS

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Trade debtors	32,867	36,411	31,811	34,425
Prepayments	-	170	-	510
Retention debtors		-	-	-
Other receivables	1,393	1,476	1,393	1,476
	34,260	38,057	33,204	36,071
Less: Provision for doubtful debts	(4,249)	(4,249)	(3,742)	(3,742)
Less: Impact of discounting	(705)	-	(705)	-
	29,306	33,808	28,757	32,329

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Cash on hand and deposits held with Banks.	11,985	33,531	10,193	30,282

11. ACCUMULATED SURPLUS

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
This non-distributable reserve will mainly be used to finance the future capital projects of the company and the group in order to meet their strategic objects.	175,306	169,220	175,306	171,039

12. CAPITALISATION RESERVE

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Land and Buildings	-	-	-	-

The capital reserve was created as a result of the transfer of various water care works and regional outfall servers from the Ekurhuleni Metropolitan Council to ERWAT at no cost or at a reduced value. These land and buildings are brought to account at existing market value at the date of transfer by crediting this reserve.
The Capial Reserve has been transferred to Deferred Income in recognising Municipal Infrastructure Grants in terms of GAAP.

13. AVAILABLE FOR SALE REVALUATION RESERVE

FAIR VALUE ADJUSTMENT

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Investment in Old Mutual Unit Trust	2,155	2,185	2,155	2,185

14. LONG TERM BORROWINGS

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Unsecured loans				
ABSA	47,463	51,452	47,463	51,452
DBSA	41,838	43,967	41,838	43,967
Ekurhuleni Metropolitan Council	-	4,000	-	4,000
INCA	88,415	90,000	88,415	90,000
	177,716	189,419	177,716	189,419
Secured loans				
Leased Asset	-	1,392	-	1,392
Lethabong Local Council	-	-	-	-
	-	1,392	-	1,392
	177,716	190,810	177,716	190,810
Less: current portion transferred to current liabilities	(9,110)	(8,703)	(9,110)	(8,703)
	168,606	182,107	168,606	182,107

Additional information:	Annual instalments Interest/Redemption	Repayment date	Interest rate
Unsecured loans			
ABSA	10,875	2,015	Prime less 2%
DBSA	8,822	2,020	Floating approx. Prime less 2%
INCA	13,785	2,024	Floating approx.
Ekurhuleni Metropolitan Municipality	-	2,023	-

Operating Leased Assets

The company has operating leases of office equipment

	2008 Minimum Payments	2008 Present value of payments	2007 Minimum payments	2007 Present value of payments
Within one year	470	441	436	307
After one year but not more than five years	806	654	1,079	964
Total minimum lease payments	1,275	1,095	1,515	1,271
Less amounts representing finance charges	(180)	-	(244)	-
Present value of minimum lease payments	1,095	1,095	1,271	1,271

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000

15. DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 28%

At the end of the 2008 financial year there is uncertainty about the probability of future taxable profits. A deferred tax asset for the unused tax loss of R 7 709 664 may therefore only be recognised to the extend that the entity has sufficient taxable temporary differences available. As there are no taxable temporary differences available no deferred tax asset was provided for. The tax benefit ot these differences are R 2 235 796.

16. TRADE AND OTHER PAYABLES

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Trade creditors	7,907	10,364	7,989	11,292
Sundry creditors		-	-	-
Accruals	12,003	10,779	12,003	10,479
Provisions	9,019	8,763	9,019	8,763
	28,929	29,906	29,011	30,534

Provisions

	Group 2008 R ' 000			Company 2008 R ' 000		
	Opening Balance	Increase/ (Decrease)	Closing Balance	Opening Balance	Increase/ (Decrease)	Closing Balance
Annual bonus	1,548	79	1,627	1,548	79	1,627
Leave pay	3,644	64	3,708	3,644	64	3,708
Merit bonus	3,570	114	3,684	3,570	114	3,684
	8,762	257	9,019	8,762	257	9,019

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 30 June 2008

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000

Provisions (continued)

	Group 2007 R ' 000			Company 2007 R ' 000		
	Opening Balance	Increase/ (Decrease)	Closing Balance	Opening Balance	Increase/ (Decrease)	Closing Balance
Annual bonus	1,720	(172)	1,548	1,640	(92)	1,548
Leave pay	3,711	(67)	3,644	3,461	183	3,644
Merit bonus	3,400	170	3,570	3,400	170	3,570
	8,831	(69)	8,762	8,501	261	8,762

Annual bonus , leave pay and merit bonus.

Annual bonus and leave pay are calculated on a total cost to company basis. Merit bonus is calculated according to the rules of an approved incentive performance scheme.

17. NOTES TO THE CASH FLOW STATEMENT

17.1. CASH GENERATED FROM OPERATIONS

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Reconciliation of profit before taxation to cash generated by operations				
Profit before taxation after attributable loss of joint ventures	6,085	3,069	4,267	1,288
Adjustment for:				
- Release of grant - Land	(132)	-	(132)	-
- Release of grant - Olifantsfontein	(1,753)	-	(1,753)	-
- Provision for losses in subsidiary	-	-	4,684	-
- Write back of loan from Ekurhuleni	(4,000)	-	(4,000)	-
- Interest and penalties on tax	-	383	-	-
- Impairment - investment in subsidiary	-	-	68	-
- Depreciation	15,558	14,463	15,558	14,364
- Interest received	(3,143)	(4,024)	(2,905)	(3,947)
- Interest paid	22,860	17,643	22,860	17,636
- Dividends received	(103)	(71)	(103)	(71)
Net (profit)/loss on disposal of property, plant and equipment	292	89	292	-
Operating surplus before working capital changes	35,664	31,553	38,835	29,270
Working capital changes:	3,526	(11,720)	2,049	(13,725)
Decrease/(increase) in receivables and prepayments	7,770	(2,296)	3,208	(3,963)
(Decrease)/increase in accounts payable	(4,244)	(9,424)	(1,159)	(9,762)
Cash generated by operations	39,190	19,833	40,884	15,545

18. RELATED PARTY TRANSACTIONS

The group and company had the following related party transactions:

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Sales of services/goods:				
Ertec (Pty) Ltd	-	-	-	1,437
Ekurhuleni Metropolitan Municipality	-	-	220,623	228,832
Purchase of services/goods:				
Ertec (Pty) Ltd	-	-	9,870	13,886
Ekurhuleni Metropolitan Municipality	-	-	15,700	14,281
Outstanding balances arising from sales of services/goods				
Ertec (Pty) Ltd	-	-	11	2,061
Ekurhuleni Metropolitan Municipality	-	-	13,042	17,373
Outstanding balances arising from Purchases of goods/services				
Ertec (Pty) Ltd	-	-	566	2,148
Ekurhuleni Metropolitan Municipality	-	-	1,883	604
Loans to related parties:				
Khulumanzi Control Systems (Pty) Ltd	49	49	-	-
Ertec (Pty) Ltd	-	-	5,108	5,108
Ekurhuleni Metropolitan Municipality	-	-	-	4,000

19. RETIREMENT BENEFIT INFORMATION

The ERWAT group has made provision for retirement benefits schemes covering substantially all employees. All eligible employees are members of defined contribution schemes administered by the group. The assets of these schemes are held in administered trust funds separated from the group's assets. Scheme assets primarily consistent of guaranteed policies.These funds are governed by the Pension Funds Act of 1956
The ERWAT Pension Fund (Registration No. 12/8/30204/1) and ERWAT Provident Fund (Registration No. 12/8/30204/1) are money purchase funds and no actuarial valuation is required in terms of the Pension Fund Act of 1956.
Contributions towards retirement and medical plans are fully recognised and expensed during the period which the related services are funded.

20. FINANCIAL INSTRUMENTS

Credit risk
Financial assets which potentially subject the group to concentrations of credit risk consist principally of cash, short term deposits and trade receivables. The group's cash equivalents and short term deposits are placed with high credit quality financial institutions.Trade receivables are presented net of the allowance for doubtful receivables. The carrying amounts of financial assets included in the balance sheet represent the group's exposure to credit risk in relation to these assets.

Interest rate risk
The group's exposure to interest rate risk and the effective interest rates on financial instruments at balance sheet date are disclosed in note 16

Fair Value
At 30 June 2008 and 2007, the carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities.
The fair value of other long term investments and of long term borrrowings are assessed annually and where appropriate adjusted to current values by discounted at the average cost of capital which is considered to approxiate the current borrowing rate.

Forward foreign exchange contract
Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.
No outstanding forward exchange contracts existed at year end.

EAST RAND WATER CARE COMPANY (ERWAT)
(**an association incorporated in terms of section 21 of the Companies Act)**
(**Registration number 1992/005753/08)**

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2008

21. CONTINGENT LIABILITIES

At 30 June 2008 the group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business, the company has given guarantees amounting to R 3 007 260 (2007: R 2 057 260) to third parties.

22. DEFERRED INCOME

22.1 The R 214.109m grant received was in respect of Water Care Works , Regional pipelines and Buildings transferred by the Local Authorities after the formation of Erwat in 1993.
The correction of a fundamental error has been recognised. R47.299m has been released to income
The deferred income will be amortised to the Statement of financial performance over the remaining estimated useful lifes of the applicable assets.
The retrospective application of this amendment has been fully applied.

22.2 A new plant is currently under construction and is financed through Erwat funds , financial institutions and from a cash amount of R 117.862m. This amount has been claimed from a municipal infrastructure grant allocated for this purpose and treated as deferred income.

Recognition of the amortised portion in the Statement of financial performance to commence when the plant in process is capitalised and ready for its intended use.

	Group 2008 R ' 000	Group 2007 R ' 000	Company 2008 R ' 000	Company 2007 R ' 000
Opening balance	280,308	109,400	280,308	109,400
Transferred from Capital Reserve	-	214,109	-	214,109
Release of grant - Plant	(1,753)	(26,372)	(1,753)	(26,372)
Release of grant - Buildings	(2,214)	(16,024)	(2,214)	(16,024)
Release of grant - Land	(131)	(805)	(131)	(805)
	276,210	280,308	276,210	280,308
Receipts	8,462	-	8,462	-
Closing balance	284,672	280,308	284,672	280,308
Closing balance	284,672	280,308	284,672	280,308
less current portion	(5,573)	(4,098)	(5,573)	(4,098)
Non current portion	279,099	276,210	279,099	276,210

EAST RAND WATER CARE COMPANY (ERWAT)
(an association incorporated in terms of section 21 of the Companies Act)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2008

23. SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

2007 Group Income R ' 000	2007 Group Expenditure R ' 000	2007 Surplus/ (Deficit) R ' 000		2008 Group Income R ' 000	2008 Group Expenditure R ' 000	2008 Surplus/ (Deficit) R ' 000
184,570	133,282	51,288	Operations	200,701	138,628	62,073
502	4,605	(4,103)	Development	552	5,737	(5,185)
16,346	14,144	2,202	Laboratory	20,068	16,902	3,166
-	9,815	(9,815)	Directorate	-	10,411	(10,411)
-	3,777	(3,777)	Marketing	-	3,779	(3,779)
199	4,959	(4,760)	Human Recources	591	5,575	(4,984)
5,997	34,184	(28,187)	Finance and Administration	14,627	46,508	(31,881)
0	1988	(1,988)	Biosure	0	2056	(2,056)
3,910	3,482	428	Technical	21,084	19,008	2,076
9,085	7,304	1,781	Ertec (Pty) Ltd	238	3,172	(2,934)
220,609	217,540	3,069	**TOTAL**	257,861	251,776	6,085

EAST RAND WATER CARE COMPANY (ERWAT)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2008

24 ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)
for the year ended 30 June 2008

	Actual Company 2008 R'000	Budget Company 2008 R'000	Variance Company 2008 R'000	Variance % Company 2008 R'000	Actual Group 2008 R'000	Budget Group 2008 R'000	Variance Group 2008 R'000	Variance % Group 2008 R'000
REVENUE								
Dividend received	103	45	58	129	103	45	58	129
Interest received - investments	4	-	4	-	4	-	4	-
Interest received - other	2,901	2,000	901	45	3,139	2,000	1,139	57
User charges	193,077	193,077	-	-	193,077	193,077	-	-
Other income	53,520	41,623	11,897	29	53,440	41,623	11,817	28
Write back loan from Ekurhuleni	4,000	-	4,000	-	4,000	-	4,000	-
Gains on disposal of property , plant and equipment	-	-	-	-	-	-	-	-
Release of grant - Olifantsfontein	1,753	-	1,753	-	1,753	-	1,753	-
Gain on release of grant	2,214	-	2,214	-	2,214	-	2,214	-
Release of grant - Land	131	-	131	-	131	-	131	-
Total Revenue	257,703	236,745	20,958	9	257,861	236,745	21,116	214
EXPENDITURE								
Employee related costs	79,847	84,831	4,984	6	79,863	84,831	4,968	6
Remuneration of Directors	303	330	27	8	345	330	(15)	(5)
Depreciation	19,372	15,349	(4,023)	(26)	19,372	15,349	(4,023)	(26)
Repairs and maintenance	38,224	25,004	(13,220)	(53)	38,224	25,004	(13,220)	(53)
Impact of discounting of receivables	705	-	(705)	-	705	-	(705)	-
Interest paid	22,860	20,689	(2,171)	(10)	22,860	20,689	(2,171)	(10)
Bulk purchases	52,472	54,766	2,294	4	54,317	54,766	449	1
General expenses	34,677	35,776	1,099	3	35,798	35,776	(22)	(0)
Loss on disposal of property , plant and equipment	292	-	(292)	-	292	-	(292)	-
Gains on accounting adjustments	4,684	-	(4,684)	-	-	-	-	-
Total Expenditure	253,436	236,745	(16,691)	(7)	251,776	236,745	(15,031)	(6)
SURPLUS/(DEFICIT)	4,267	-	4,267	-	6,085	-	6,085	-
Taxation	-	-	-	-	-	-	-	-
Surplus/(deficit) from ordinary activities	4,267	-	4,267	-	6,085	-	6,085	-
Attributable surplus/(deficit) of joint ventures	-	-	-	-	-	-	-	-
NET SURPLUS/(DEFICIT)	4,267	-	4,267	-	6,085	-	6,085	-

EAST RAND WATER CARE COMPANY (ERWAT)
(Registration number 1992/005753/08)

NOTES TO THE FINANCIAL STATEMENTS(Continued)
for the year ended 30 June 2008

25. SCHEDULE OF EXTERNAL LOANS
as at 30 June 2008

External loans	Redeemable	R'000 Balance at 30/06/07	R'000 Received during the period	R'000 Redeemed during the period	R'000 Balance at 30/06/08
Unsecured loans					
ABSA	31/05/2015	51,452	-	3,989	47,463
DBSA	30/09/2021	43,967	-	2,129	41,838
Ekurhuleni Metropolitan Council	28/02/2023	4,000	-	4,000	0
INCA	30/06/2024	90,000	-	1,585	88,415
		189,419	-	11,703	177,716
Secured loans					
Leased Asset		1,392	-	1,392	-
Total External loans		190,810	-	13,094	177,716

26. CHANGE IN ACCOUNTING POLICY : DEPRECIATION

The policy for Buildings and Civil structures have been changed to allow for depreciation on asset grants received from Ekurhuleni Metropolitan Municipality and depreciation on Erwat's own buildings. Prior years depreciation has been accounted for in the Statement of changes in net assets and the comparitive figures have been amended. The total adjustment is as follows :

	Own buildings	Grant buildings	Total
2005/2006 and retrospective	R 4 438 000	R 13 810 000	R 18 248 000
2006/2007 financial year	R 1 519 000	R 2 214 000	R 3 733 000
2007/2008 financial year	R 1 519 000	R 2 214 000	R 3 733 000

27. EVENTS AFTER REPORTING DATE

Investment in Ertec (Pty) Ltd

Historically Erwat has held a 100% interest in Ertec (Pty) Ltd. This is a cotravention of the Municipal Systems Act 32 of 2000 as amended. As at 30 June 2008 negotiations were underway , but not concluded , for the disposal of the shares in Ertec (Pty) Ltd and for the transfer of all assts and liabilities to Erwat. The net asset value is deemed to be fully recoverable. The proposed date of the transaction is 1 July 2008.

ANNEXURE “B”

T H E E K U R H U L E N I D E V E L O P M E N T C O M P A N Y (E k u r h u l e n i D e v e l o p m e n t C o m p a n y)

VISION

The creative and developmental housing entity.

MISSION

“To provide unquestionably high quality housing options including infrastructural services in and around Ekurhuleni”; Ekurhuleni Development Company will:

- Manage existing rental housing stock;
- Convert and manage buildings owned by Ekurhuleni Metropolitan Municipality;
- Refurbish and manage Inner City ’bad’ buildings;
- Develop and manage new social housing products.

Delivery is facilitated by a skilled and motivated team to ensure best practice and customer satisfaction”

T H E C H A I R M A N ’ S R E P O R T

During 2007 -2008 the company improved its work however took on some new challenges. I would like to commend the staff and Board for their commitment in taking on the social and political risks involved in managing social housing in and creating sustainable urban communities.

The Urban renewal Project was completed to provide the offices with a presentable image. It contributed to the improvement of the inner city of Germiston. Ekurhuleni Development Company would like to thank Ekurhuleni Metropolitan Municipality for the grant that made this possible.

President Place Project demanded a lot of time and effort to come off the ground. The financial commitment for the finalisation of the project proved to be a huge challenge and some financial contribution out of Ekurhuleni Development Company’s operation budget. The assistance from our minority shareholder Gauteng Partnership Fund with regard to bridging finance, subsidies and interest free loans assisted greatly in the acquisition of the property.

Ekurhuleni Development Company believe that the acquisition of Presidents Place is a step closer to delivering on the mandate of the company. A word of gratitude to the National Housing Finance Corporation for the provision of loans to Ekurhuleni Development Company. The total project cost is R30 Million, and is delivering 347 housing units. The project is reaching it finalisation stage with contracts being signed.

Ekurhuleni Development Company has been able to manage the risks associated with the administrative consolidation of Ekurhuleni Development Company, Pharoe Park Housing Company, Germiston Phase II Housing Company and the Lethabong Housing Institute. This is mainly attributable to the skills the group has developed over the past years, but also to the improving organizational and financial management in conformity to the Municipal Finance Management Act and other prescribed legal framework prescriptive to municipal entities.

Ekurhuleni Development Company has appointed a Programme Management Consortium to assist with the delivering of 15000 houses by 2014. Xihangu is a consortium who has the level of skills and knowledge that is needed to pursue this mandate of Ekurhuleni Development Company and will provide the citizens of Ekurhuleni with a quality of life that they deserve.

I also want to acknowledge the positive interactions between Ekurhuleni Development Company, Ekurhuleni Metropolitan Municipality and various government agencies, and at provincial level, the Gauteng Department of Housing and the Gauteng Partnership Fund which have helped us in our drive towards essential elements of urban renewal.

As Ekurhuleni Development Company is transforming, so it has its level of exposure to an involvement with the Ekurhuleni Metropolitan Municipality and other role players. I would like to thank these players for their support of our endeavours.

Ekurhuleni Development Company is tasked with the provision of social housing units. I am honoured to report that the proposed twinning arrangement between Ekurhuleni Metropolitan Municipality and the Breda Municipality (The

Netherlands) will assist the Ekurhuleni Development Company in the acceleration of the provision of more social housing units for the Ekurhuleni Community.

The intended twinning arrangements will, amongst other achieve the following focus points:-

- Capacity enhancement of the EDC to ensure that it delivers on its mandate of social housing
- Programme and project enhancement & reinforcement.

Acknowledgement

During the period under review, Mr E Sigasa resigned from the board and we thank him for his invaluable contribution.

I would like to thank the Chief executive Officer, the company's executives and our staff members for their hard work in striving to achieve the company's objectives

I would like to thank the honourable members of the mayoral committee Housing for the encouragement received and guidance as well as the support of the Acting Executive Director: Housing during 2007/2008 financial year.

Finally, I would like to thank my fellow directors and all stakeholders for their tireless efforts.

DAPHNEY NGOASHENG
CHAIRPERSON

CEO'S REPORT

The Ekurhuleni Development Company entered the financial year ending June 2008 focussed on three critical challenges that would define the future of the company.
The first challenge revolved around ensuring that we grow the portfolio of units and secondly measures are taken to ensure that the programme management consortium is appointed to assist the Ekurhuleni Development Company in the delivering of 15000 social housing units as mandated by the parent municipality. Thirdly, measures are taken to ensure that rental increases are affected to ensure the sustainability of the company.

The year 2007-2008 brought on a lot of challenges due to the complex nature of social housing.

The acquisition of President Place, the appointment of a Programme Management Consortium to assist in the delivery of the mandate of delivering 15 000 social housing units 2014 entered Ekurhuleni Development Company into a different league altogether.

The Ekurhuleni Development Company introduced some changes in the rental and other levies to the tenants with a view of ensuring that the company realises sustainability. A refuse tariff was newly introduced and the water charges were revised. An 8% increase in the rental levies was introduced with an added 4 % in July 2008. The main reason for pursuing the aforementioned action has been to align the annual increases with the budget period of the entity. The rental income R15.1 million for 2007/8 has increased from R14.087 in 2006/07. Ekurhuleni Development Company's property value grew with 3.8% notwithstanding the turbulence experienced in the economic environment to R 120m (2007/8) from R116m (2006/7).

Over the past year we have improved our staff resources at Ekurhuleni Development Company by providing training to the staff at all levels. The training provided is in line to strengthen our internal skills to manage our growing portfolio of properties and to meet the needs of our tenants.

Ekurhuleni Development Company management and staff can look back on the year with a great deal of pride as a lot has been achieved and processes were improved. The company is experiencing growth and has now placed its business on a path of recovery.
The challenges of transformation of the four companies managed by Ekurhuleni Development Company have been huge however major successes have been recorded.

The envisaged growth of the Ekurhuleni Development Company will ensure that the company contributes immensely in a sustainable manner to meeting the key challenges facing housing in Ekurhuleni.

I want to extend my sincere appreciation to the Board, management and staff of Ekurhuleni Development Company for all the hard work.

MM Mokgohloa
Chief Executive Officer

O P E R A T I O N S   R E V I E W

ORGANISATIONAL ARRANGEMENTS AND HUMAN RESOURCES

Ekurhuleni Development Company has maintained its staff complement during the year although we suffered some losses in staff that left the organisation. The Business Development Manager Ms Ngubo left Ekurhuleni Development Company to join the government in managing the Union Buildings. Our Business Development Officer gained a lot of experience during the time that he acted in this position. Alfred Setino was appointed in September 2008 as the new Business Development Manager.

TRAINING

A Training programme with a service provider was initiated. An audit of skills was done and appropriate courses were chosen to ensure that all staff was received training. A bursary scheme was introduced and at least 3 staff members utilised the scheme for formal education. Property specific education and training programmes were provided by external institutions such as the South African Property Owners Association (SAPOA) and the National Social Housing Organisation (NASHO) that Ekurhuleni Development Company is a member of. New systems that were implemented like Caseware and Tenant Profile Network (TPN) also required training to staff and such training was provided.

PERFORMANCE MANAGEMENT

The CEO, Business Development Manager and Finance Manager are subject to a Performance Management review system. Ekurhuleni Development Company's ideal focus is to ensure that the performance management system is improved qualitatively to ensure consistent high performance. The performance assessments were filtered down to middle level staff and also created an improved level of performance with the staff involved.

P R O P E R T Y   M A N A G E M E N T

Ekurhuleni Development Company's Property Management function is handled by the Business Development Manager, Business Development Officer, 2 Letting Officers a Supervisor and Maintenance Officers.

Looking at the company's total property portfolio, vacancy levels have been substantially maintained at 1 %.

BUILDING MANAGEMENT SERVICES

The Property Management Department is mainly responsible for all the functions and needs of all property of the Ekurhuleni Development Company. Some services like cleaning and security is outsourced. The customer's have indicated a high level of satisfaction in respect of security provision. The aforementioned statement indicates the Ekurhuleni Development Company understands of the needs of tenants.

COMMUNITY DEVELOPMENT

The Community development office approach has been to identify tenant's needs and priorities in respect of community and social issues in the rental properties. Community safety is our priority hence the Ekurhuleni Development Company has ensured that all entrances to our complexes are well secured. A Private security firm has been engaged to ensure that we provide services of a high quality.

The youth programme that was initiated in 2006/07 was widely supported by the tenants of the complexes in 2007/08. The Pharoe Park Youth Development joined in an educational SABC Tour. Presentation Awards were awarded to deserving students for participation in several fields eg. soccer, drama, music and poetry. Youth day celebrations included a HIV Aids education programme.

A neighbourhood programme has been initiated to ensure that the focus is on community development and rebuilding of good social values is reflected in our tenants. Ekurhuleni Development Company beliefs that integrated communities provide the corner stone of a healthy society.

PROPERTY MAINTENANCE AND IMPROVEMENTS

The Ekurhuleni Development Company's has initiated reinvestment in our buildings with the following thrusts:-

- All our buildings are well maintained
- Safety is the key
- Compliance and support of the Metro's inner city renewal and paying rates and utilities to the metro

- Ensure that buildings deliver continuing returns
- The Urban renewal project that was approved in 2006/07 commenced and was completed in the Germiston CBD area during July 2007. It improved the image of our buildings and we are very proud of it.

FINANCIAL MANAGEMENT

The Finance Department is responsible for more than just the management of debtors and creditors. Ekurhuleni Development Company is utilising the scarce resources available to improve the lives of the tenants whilst ensuring that we conform and comply to all relevant legislations.

The finance division is fully staffed and our staff compliment consists of 2 Bookkeepers, an Accountant, a Credit controller and a Financial Manager.

These staff members are responsible for the compilation of budgets, monthly accounts and financial statements for the four companies, Ekurhuleni Development Company, Lethabong Housing Institute(sec 21), Pharoe Park Housing Company and Germiston Phase II Housing Company

To allow Ekurhuleni Development Company to operate optimally the rental levies were increased in March with 8 % and another 4% in July 2008.

We can confidently report that the newly appointed Credit controller contributed greatly to the current 98% payment rate that we are enjoying.

Effective financial management relies on a basis of accurate and up to date financial data. Within the finance department the team is constantly improving the systems of internal controls by recording and delivering the management information required by the Board and legislation prescribed to keep the company on track in terms of reaching its financial target.

The Auditor General qualified the Financial statements for 2007/2008 of Ekurhuleni Development Company on Property Plant and Equipment. The entity did not assess the useful lives and residual values of property plant and equipment. This mostly relates to computer equipment that is reflected at a zero value in the asset register (the asset register for Ekurhuleni Development Company was compiled according to the Accounting standards during the year under review).The materiality figure for Ekurhuleni Development Company is R 20 000.

The Lethabong Housing Institute financials were qualified for a provision that was created for defects in Stanford Gardens for R284 075. An engineering company provided Ekurhuleni Development Company with a preliminary costing of R241 000 for the defects that are relating to the responsibility of LHI. The difference was not reversed as fluctuations in quotes are a reality. The auditor did not agree to this.

Pharoe Park Housing Company and Germiston Phase II Housing Company received a clean audit report.

The financial management of the four companies grew immensely this year and by no account does the qualified opinions regress our improvements.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENTS

Good corporate governance is regarded as critical to the success of Ekurhuleni Development Company. Consequently the Board is unreservedly committed to applying the fundamental principles of good governance-discipline, accountability, responsibility, fairness, transparency, integrity, independence and social responsibility-in all dealings by, in respect of, and on behalf of, the company.

The Ekurhuleni Development Company aligns itself to the values of good corporate governance. The Ekurhuleni Development Company is committed to :-amongst others:

- Highest standard of integrity
- Conducting business through fair competitive practice
- Being environmental and social issues savvy

BOARD OF DIRECTORS

The Board comprises of Non Executive Directors, and one Executive Director.

Each Director brings a range of different skills and experience to Ekurhuleni Development Company.

The Board is presided over by a Non Executive Chairperson, Ms D Ngoasheng. The Non Executive Directors take responsibility for ensuring the chairperson encourages proper deliberation of all matters requiring the Board attention

The Board retains full effective control of the Ekurhuleni Development Company and monitors executive management through a structures approach to reporting and accountability

The Board of Directors holds responsibility for the following, inter alia,

- Compliance issues
- Establish policies and plans
- Approve annual business plans, budgets and accounts
- Oversee a structure of delegation and systems of control and risk management
- Make decisions on all matters that might create significant financial or other risk to Ekurhuleni Development Company
- Monitor Ekurhuleni Development Company performance
- Ensures that the Ekurhuleni Development Company business is conducted legally and in accordance with generally accepted standards of performance.

BOARD COMMITTEES

The Board had since established the following Board Committees chaired by a Non Executive Director and has defined terms of reference.

FINANCE AUDIT AND RISK BOARD SUB COMMITTEE

Members

Mr. S Twala : Chairperson

Mr. E Rangongo: EMM : Internal Audit Executive

Mr. L Rautenbach: EMM: Manager Municipal Entity

Mr. M Mokgohloa: CEO: Ekurhuleni Development Company

Mrs ME von Ronge: Finance Manager

The Audit Committee has specific responsibility for ensuring that all activities of Ekurhuleni Development Company are subject to independent review and audit and for monitoring – on behalf of the Board – the group's relationship with its auditors.

The Audit Committee has the following responsibilities, inter alia

- Ensuring that the group trades responsibly that risks are properly identified, evaluated and managed and that it can meet its present and future needs and obligations
- Reviewing Ekurhuleni Development Company's internal controls and published financial reports for statutory compliance and against standards of best practice and

recommending appropriate disclosure to the Board.

- Reviewing reports from management and external auditors, to provide reasonable assurance that control procedures are in place and being followed.
- Reviewing the annual financial statements before submission to the board, focusing particularly on any changes in accounting policies and procedures.

REMUNERATION COMMITTEE

Members:

Ms D Ngoasheng : Chairperson

Mr. P Ucko: Non Executive Director

Mr. M Mokgohloa Executive Director

The Remuneration committee is responsible for directing human resources policy and approving all remuneration arrangements and conditions of service for the Chief Executive Officer, management and staff. The Executive Director is excluded from the committee when matters relating to his remuneration are discussed. All remuneration in the group is based on performance reviews within the balance score card framework.

PROJECTS COMMITTEE

Members:

Mr. S Gerber : Chairperson

Ms D Ngoasheng: Non Executive Director

Mr Richard Tsoka Business Development Officer(Acting BDM)

The Projects Committee is mandated to evaluate all Ekurhuleni Development Company projects and ensure that all new projects conceived are viable.

CONDUCT AND PROBITY

Ekurhuleni Development Company seeks to build and maintain a reputation for high standards of conduct and probity.

ETHICAL CODE OF CONDUCT

It is required by the Ekurhuleni Development Company that employees of the group may not use their authority or office for personal gain and must seek to uphold the good name of Ekurhuleni Development Company by:

- Maintaining unimpeachable standards of honesty and integrity inside and outside the employment relationships

- Fostering the highest standard of professional competence among people for whom they are responsible
- Optimising the use of resources at their disposal maximum benefit to Ekurhuleni Development Company and a customer- directed quality service
- Complying with:
- The requirements of the laws of the country
- Group procurement policy detailed procedures and Ekurhuleni Development Company's values
- The guidance that Ekurhuleni Development Company provides with regard to professional conduct
- Contractual obligations
- Repudiating al business practices that are improper and that are at variance with accepted moral and ethical principles.

Ekurhuleni Development Company BOARD OF DIRECTORS

Ms Daphney Ngoasheng (Chairperson)

Mr. Mokela Michael Mokgohloa Chief Executive officer of Ekurhuleni Development Company

Mr. Sipho Twala : Board member
Mr. Nazir Kara : Board member
Mr Peter Ucko ; Board member
Mr. Simon Gerber : Board member

ENTITY PERFORMANCE REVIEW

The Performance assessment of Ekurhuleni Development Company was driven by the budget process whereby the Entity submitted an annual budget together with a Service Delivery and Budget Implementation Plan to the Ekurhuleni Metropolitan Municipality. These performance targets were set against measurable performance objectives determined and agreed between the entity and the municipality.

SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN – MEASURABLE PERFORMANCE INDICATORS

Vote/Indicator	Unit of Measure	Performance Objectives	Annual Target	Qtr 30th Ending Sept		Qtr 31st Ending Dec		Qtr 31st Ending March		Qtr 30th Ending June		Comments
				Proj	Act	Proj	Act	Proj	Act	Proj	Act	
1. Acquiring of Presidents Place	Number of Houses	Poverty Alleviation	347	0		0		0		30% - Deposit paid		Financing of the Project hampered the completion Deposit was paid 30% completion Continue in 2008/09 financial year
2. Development of Phase 2 B	Number of Houses	Poverty Alleviation	288	0	0	5%	2%	10%	3%	20%	3%	Planning commenced in October 2007.
3. Bedford view Tennis Courts	Number of Houses	Poverty Alleviation	10	2%	2%	2%	2%	0	0	0	0	The project was put out on tender. The tender was awarded in Nov to MVUA-ABSA DEVCO Consortium
4. Appointment of Programme Manager			15000	2%	2%	2%	2%	5%	5%	5%	5%	Xihangu consortium was appointed on risk as the programme management consortium.

Ekurhuleni Development Company IN PERSPECTIVE

The Ekurhuleni Development Company has 988 units including two projects from Lethabong Housing Institute, that is the Bedfordview tennis courts project and Standford Gardens Phase III project.
The current total portfolio comprises 988 units.

- Capital value of Ekurhuleni Development Company stock at year end June 2008: R120 Million, June 2007:R116 Million. Showing a 3.8% growth in value of properties
- LHI value of stock R13.6 million 2007
- Total rental income year end June 2008: R15.1 million, 2007: R14.087 million
- Total Income for the year ended June 2008: R23,9 million, 2007: R19,9 million
- Vacancy levels year end June 2008= 1 % average over the year, 2007:1%
- Payments to the Ekurhuleni Metropolitan Municipality, for rates and utility services, year end June 2008: R2,28 million ,June 2007: R 2.3 million
- Building maintenance expenditure year end June 2008: R 1.540million, 2007 R 1.269m.

Key Performance Indicators

Credit Control

Credit Control Report

Period: July 2007 to June 2008

Arrears Trends								
Period	**Arrears B/f**	**Rent**	**Recoveries and Adjs**	**Total Due**	**Receipts**	**Arrears C/f**	**% Arrears on New Billings**	**% Arrears on Total Due**
200707	2,298,199.60	1,176,667.87	20,874.17	3,495,741.64	-1,246,926.69	2,248,814.95	187.79	64.33
200708	2,248,814.95	1,187,255.76	39,419.44	3,475,490.15	-1,065,231.39	2,410,258.76	196.49	69.35
200709	2,406,141.76	1,197,518.12	46,906.89	3,650,566.77	-967,135.52	2,683,431.25	215.64	73.51
200710	2,683,431.25	1,191,253.97	37,063.09	3,911,748.31	-1,187,029.75	2,724,718.56	221.83	69.65
200711	2,724,718.56	1,195,970.83	23,213.04	3,943,902.43	-1,082,900.11	2,861,002.32	234.67	72.54
200712	2,861,002.32	1,201,719.98	63,850.88	4,126,573.18	-1,272,821.02	2,853,752.16	225.49	69.16
200801	2,853,752.16	1,208,666.71	7,644.52	4,070,063.39	-1,401,555.84	2,668,507.55	219.39	65.56
200802	2,668,507.55	1,210,112.37	59,881.98	3,938,501.90	-1,426,492.76	2,512,009.14	197.80	63.78
200803	2,512,009.14	1,317,056.76	47,533.69	3,876,599.59	-1,410,544.91	2,466,054.68	180.72	63.61
200804	2,466,054.68	1,318,314.34	86,611.77	3,870,980.79	-1,371,187.94	2,499,792.85	177.93	64.58
200805	2,499,792.85	1,316,593.96	160,519.43	3,976,906.24	-1,665,326.60	2,311,579.64	156.49	58.13
200806	2,311,579.64	1,323,607.59	-586,006.62	3,049,180.61	-1,294,223.04	1,754,957.57	237.93	57.56

Age Analysis						
Period	**Total**	**120+ Days**	**90 Days**	**60 Days**	**30 Days**	**Current**
200707	2,248,814.95	1,866,729.42	76,263.62	120,715.84	259,951.30	-74,845.23
200708	2,410,258.76	1,895,586.37	78,917.28	154,884.79	281,279.69	-409.37
200709	2,683,431.25	1,941,741.08	111,386.23	176,525.78	354,587.38	99,190.78
200710	2,724,718.56	1,986,134.21	104,227.31	200,433.26	350,031.06	83,892.72
200711	2,861,002.32	1,995,503.97	139,930.09	226,493.45	380,569.76	118,505.05
200712	2,853,752.16	2,054,397.73	155,422.50	235,433.84	363,701.03	44,797.06
200801	2,668,507.55	2,039,415.68	122,239.35	187,302.05	302,470.96	17,079.51
200802	2,512,009.14	2,002,838.41	96,800.25	142,689.03	272,884.77	-3,203.32
200803	2,466,054.68	1,964,181.53	92,966.88	141,129.68	259,670.18	8,106.41
200804	2,499,792.85	1,943,863.78	88,924.55	150,291.42	313,449.84	3,263.26
200805	2,311,579.64	1,937,193.31	76,271.86	139,063.25	239,819.90	-80,768.68
200806	1,754,957.57	1,130,593.28	92,691.01	130,367.44	244,414.53	156,891.31

EKURHULENI DEVELOPMENT COMPANY
(REGISTRATION NUMBER 2000/007936/07)
TRADING AS EKURHULENI DEVELOPMENT COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

DIRECTORS' RESPONSIBILITIES AND APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 29, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973 and which I have signed on behalf of the Entity.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The disclosure requirements as per GRAP 1,2 and 3 have also been incorporated in the financial statements.

Chief Executive Officer

Friday, 29 August, 2008

Certificate by Company Secretary for the year ended June 30, 2008

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

ME von Ronge
Of: EKURHULENI DEVELOPMENT COMPANY
Company Secretary
Friday, 29 August, 2008

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Trading in various commodities
DIRECTORS	Daphney Ngoasheng Sipho Mlungisi Twala Michael Mokela Mokgohloa Simon Pieter Gerber Clive Peter Ucko Kara Nazir Ahmed
BUSINESS ADDRESS	Shop no 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
PARENT	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA
AUDITORS	Auditor General Registered Auditors
SECRETARY	ME von Ronge
COMPANY REGISTRATION NUMBER	2000/007936/07

CONTENTS

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

DIRECTORS' REPORT

1. INCORPORATION

The company was incorporated on13 March 2000 and obtained its certificate to commence business on the same day.

2. GOING CONCERN

The Ekurhuleni Development Company on the yearend of June 30, 2008, showed a deficit of R27 509 and the company's total assets exceeded the liabilities by R35,732.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the company has resources in place to continue in operation for the foreseeable future.

The existence of the company is dependant on the continued support of its sole shareholder, Ekurhuleni Metropolitan Municipality. Furthermore the company is dependant on the continued agreement between Pharoe Park Housing Company, Phase II Housing Company and Lethabong Housing Institute which pay a mangement fee to the EDC, accordingly it is required that these companies are profitable and sustainable.

3. INTERNAL CONTROLS

3.1. Grant income

Grant income, aside from grant monies received from Ekurhuleni Metropolitan Municipality, is obtained via applications for subsidies made to Gauteng Partnership Fund. As a social housing institution, EDC is able to access housing subsidies from the Gauteng Partnership Fund.

3.2. VAT

EKURHULENI DEVELOPMENT COMPANY is registered with the South African Revenue Services (SARS) for VAT.

4. POST STATEMENT OF FINANCIAL POSITION EVENTS

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

5. ACCOUNTING POLICIES

The International Financial Reporting Standards were not applied. Generally Accepted Accounting Practice, together with the South African Generally Recognised Accounting Practice 1, 2 and 3 were applied, in consistency with prior year.

The Company has prepared its annual financial statements in terms of Standards of Generally Accepted Accounting Practice, except where these have been superseded by the 3 Standards of Generally Recognised Accounting Practice.

There were no changes in accounting policies during the year.

DIRECTORS' REPORT

6. AUTHORISED AND ISSUED SHARE CAPITAL

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

Ekurhuleni Metropolitan Municipality held 100% of the ordinary share capital of the company as at 30 June 2008.

There were no changes in the authorised or issued contributions from owners of the company during the year under review.

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

7. DIRECTORS

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

Name	Nationality
Daphney Ngoasheng	
Sipho Mlungisi Twala	SA Citizen
Michael Mokela Mokgohloa	SA Citizen
Simon Pieter Gerber	SA Citizen
Clive Peter Ucko	SA Citizen
Kara Nazir Ahmed	SA Citizen

8. SECRETARY

The secretary of the company is ME von Ronge of:

Business address	
	No 9 Jack Street Pharoe Park Germiston 1400
Postal address	
	PO Box 1245 Germiston 1400

9. PARENT

The company's parent is Ekurhuleni Metropolitan Municipality

10. BANKERS

Amalgamated Bank of South Africa Limited

11. AUDITORS

In accordance with Section 92 of the Municipal Finance Management Act No 56 of 2003,Auditor General will continue as the Company’s external auditors

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2008

	Note(s)	2008 R	2007 R
EQUITY AND LIABILITIES			
NET ASSETS			
Share capital	2	100	100
Accumulated Surplus (Deficit)		35,632	77,530
		35,732	**77,630**
LIABILITIES			
CURRENT LIABILITIES			
Amount owing to related companies	3	2,620,816	64,150
Loans from shareholders	4	-	10,793,533
Current tax payable		56,944	41,000
Trade and other payables	6	541,072	632,726
		3,218,832	**11,531,409**
Non-Current Liabilities		-	-
Current Liabilities		3,218,832	11,531,409
Liabilities of disposal groups		-	-
Equities		35,732	77,630
Liabilities		3,218,832	11,531,409
Total Equity and Liabilities		**3,254,564**	**11,609,039**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	163,631	263,474
CURRENT ASSETS			
Amounts owing by related companies	3	1,777,997	943,822
Trade and other receivables	9	53,505	28,880
Cash and cash equivalents	7	1,259,431	10,372,861
		3,090,933	**11,345,563**
Non-Current Assets		163,631	263,474
Current Assets		3,090,933	11,345,563
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**3,254,564**	**11,609,037**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue	10	5,544,001	4,347,630
Revenue		5,544,001	4,347,630
Cost of sales		-	-
Income	13	175,527	1,228
Operating expenses	17	(5,764,155)	(4,223,873)
		5,544,001	4,347,630
		(5,588,628)	(4,222,645)
Operating (deficit) surplus	14	**(44,627)**	**124,985**
Investment revenue	11	40,217	110,906
Finance costs		(23,099)	(14,821)
Operating surplus		(44,627)	124,985
Non-operating expense (NET)		17,118	96,085
(Deficit) surplus before taxation		**(27,509)**	**221,070**
Taxation	18	-	(41,000)
Surplus (deficit) for the period from continuing operations		(27,509)	180,070
Surplus (deficit) from discontinued operations		-	-
(Deficit) surplus for the year		**(27,509)**	**180,070**

DETAILED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue			
Management services rendered		5,544,001	4,347,630
		5,544,001	4,347,630
		-	-
Other income			
Recoveries		877	-
Income		13,778	1,228
Interest received - investment	11	40,217	110,906
Government grants		160,872	-
		215,744	**112,134**
		(5,764,155)	(4,223,873)
Expenses (Refer to page 9)		**(5,764,155)**	**(4,223,873)**
		5,544,001	4,347,630
		215,744	112,134
		(5,764,155)	(4,223,873)
Operating (deficit) surplus	14	**(4,410)**	**235,891**
Finance costs		(23,099)	(14,821)
		(4,410)	235,891
		(23,099)	(14,821)
(Deficit) surplus before taxation		**(27,509)**	**221,070**
Taxation	18	-	41,000
Surplus (deficit) before taxation		(27,509)	221,070
Taxation		-	41,000
(Deficit) surplus for the year		**(27,509)**	**180,070**

Refer to Appendix E(1) for comparison with the approved budget

	Note(s)	2008 R	2007 R
Operating expenses			
Advertising		27,999	13,966
Auditors remuneration	15	307,842	122,157
Bank charges		25,012	17,669
Cleaning		-	1,184
Commission paid		374	-
Computer expenses		45,356	64,584
Conferences and seminars		6,062	69,163
Consulting and professional fees		576,832	230,195
Legal fees		122,841	33,830
Deficit on disposal of assets		-	9,642
Depreciation		138,933	116,338
Employee costs	16	3,519,075	2,690,917
Motor vehicle expenses		19,311	12,775
Insurance		61,397	47,943
Lease rentals on operating lease		260,022	254,439
Magazines, books and periodicals		25,811	28,979
Pest control		7,590	-
Printing and stationery		62,587	51,485
Repairs and maintenance		26,921	41,986
Security		3,852	30,596
Licencing of software		59,864	30,489
Staff welfare		33,705	30,215

DETAILED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Telecommunication costs (Telephone and fax)		253,476	190,855
Training & recruitment cost		110,469	77,671
Travel - local		44,202	31,346
Utilities		24,622	25,449
		5,764,155	**4,223,873**

DETAILED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R

STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital R	Accumulated Surplus (Deficit) R	Net Assets R
Balance at July 1, 2006		**100**	**(102,540)**	**(102,440)**
Changes in net assets				
Surplus for the year			180,070	180,070
Total changes		-	180,070	180,070
Balance at July 1, 2007		**100**	**77,530**	**77,630**
Changes in net assets				
Prior year adjustments			(14,389)	(14,389)
Net income (expenses) recognised directly in equity		-	(14,389)	(14,389)
Deficit for the year			(27,509)	(27,509)
Total recognised income and expenses for the year		-	(41,898)	(41,898)
Total changes		-	(41,898)	(41,898)
Balance at June 30, 2008		**100**	**35,632**	**35,732**

CASH FLOW STATEMENT

	Note(s)	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		5,759,745	4,348,858
Cash paid to suppliers and employees		(5,767,329)	(3,644,462)
Cash (used in) generated from operations	19	(7,584)	704,396
Interest income		40,217	110,906
Finance costs		(23,099)	(14,821)
Tax received	20	15,944	-
Net cash from operating activities		**25,478**	**800,481**
CASH FLOWS UTILISED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(67,866)	(37,465)
Proceeds from sale of property, plant and equipment	8	-	(9,642)
Loans advanced to related companies		-	(879,672)
Increase in loans from related companies		1,722,491	(280,282)
Other non-cash item		-	(1,538)
Net cash utilised in investing activities		**1,654,625**	**(1,208,599)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Bridging finance received(paid)		(10,793,533)	10,793,533
Net cash from financing activities		**(10,793,533)**	**10,793,533**
Net increse(decrease) in cash and cash equivalents		**(9,113,430)**	**10,385,415**
Cash and cash equivalents at the beginning of period		10,372,861	(12,554)
Cash and cash equivalents at end of the period	7	**1,259,431**	**10,372,861**

ACCOUNTING POLICIES

1. Basis of preparation

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice(GAAP) including any interpretations such Statements issued by the Accounting Practice Board, with the prescribed Standard of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP
GRAP1:	Presentation of financial statements	AC 101: Presentation of financial statements
GRAP2:	Cash flow statements	AC 118: Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognision and measurement principles in the above GRAP & GAAP statements do not differ or resulted in material difference in items presented and disclosed in the financial statements. The implementation of Grap 1,2 and 3 has resulted in the following changes in the presentation of the financial statements:

1.1. Terminology differences:

Standard of GRAP	Replacement Statement of GAAP
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net Assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained Earnings
Contributions from Owners	Share Capital
Distributions to Owners	Dividends

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. Specific information has been presented seperately on the Statement of Financial Position, such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions.

1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

These accounting policies are consistent with the previous year.

1.1 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

1.2 GOING CONCERN ASSUMPTION

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

ACCOUNTING POLICIES

1.3 OWNERS CONTRIBUTIONS AND NET ASSETS

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.4 PROPERTY, PLANT AND EQUIPMENT

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

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.

Cost model

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

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met. Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:-

Details	Years
Furniture and fixtures	5 years
Motor vehicles	5 years
Office equipment	3 years
Computer equipment	3 years
Computer software	3 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of 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 shall be depreciated separately. The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss 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.

Repairs and maintenance are generally charged to expenses during the financial period in which they are incurred.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

ACCOUNTING POLICIES

1.5 IMPAIRMENT OF ASSETS

The company assesses at each statement of financial position date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Property, plant and equipment and other non-current, and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.6 FINANCIAL INSTRUMENTS

Initial recognition

Recognition.
The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Measurement .
Financial Instruments are initially measured at cost, which includes transaction costs.

Subsequent recognition
Subsequent to initial recognition these instruments are measured as set out below

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the annual financial statements establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS (continued)

Amounts owing by (to) related companies

These include loans to holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to (from) group companies are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within annual financial statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against company in the income statement.

Trade and other receivables are classified as loans and receivables.

Debtors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.7 PROVISIONS

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to the company.

1.8 EMPLOYEE BENEFITS

1.8.1 Defined contribution plans

The company contributes to a provident fund on the basis of a fixed contribution. The provident fund is a defined contribution fund.

A defined contribution plan is a retirement plan under which the company pays fixed contributions into a separate entity.

The company's contributions to the defined contribution plans are charged to the Statement of Financial Performance in the financial year to which they relate.

The company has no further payment obligations once the contributions have been paid.

1.9 REVENUE

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

1.9.1 REVENUE FROM EXCHANGE TRANSACTIONS

Interest are recognised on a time proportion basis.

1.10 LEASES

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.

ACCOUNTING POLICIES

1.11 TAX

Current tax assets and liabilities

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

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 reporting date.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method.

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 reporting date.

Deferred tax assets and liabilites are offset when there is a legally enforceable right to set off current tax against current tax liabilities annd when they relate to income taxes levied by the same tax authority and the company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax liability is recognised for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the deductable temporary difference can be utilised, unless the deferred tax asset arises from the initial recognision of an asseet or liability in a transaction that:
a) is not a business combination; and
b) at the time of the transaction, affects neither accounting profit 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 profit will be available against which the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
a) the initial recognition of goodwill; or
b) goodwill for which amortisation is not deductible for tax purposes; or
c) the initial recognition of an asset or liability in a transaction which:
- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

ACCOUNTING POLICIES

1.11 TAX (continued)

Taxation

Income Tax expense represents the sum of current and deferred tax.

Current and deferred taxes are recognised as income of an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
a) a transaction or event which is recognised, in the same or different period, directly in net assets, or
b) a business combination.

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

1.12 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

1.14 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. If the expenditure is not condoned by the relevant authority it is accounted for as a current asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

1.15 COMPARATIVES INFORMATION

1.15.1 CURRENT YEAR COMPARATIVES

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.15.2 PRIOR YEAR COMPARATIVES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
2. SHARE CAPITAL		
Authorised		
1000 Ordinary shares of R1 each	-	1,000

2. SHARE CAPITAL (continued)

Issued

Ordinary	100	100

100 share at R1 each had been issued and are held by Ekurhuleni Metropolitan Municipality.

3. AMOUNTS OWING BY(TO) RELATED COMPANIES

Related Companies

Phase II Housing Company	179,784	(64,150)
Pharoe Park Housing Company	1,598,213	478,741
Lethabong Housing Institute	(2,620,816)	465,081
	(842,819)	**879,672**

Current assets	1,777,997	943,822
Current liabilities	(2,620,816)	(64,150)
	(842,819)	**879,672**

4. LOANS TO/FROM SHAREHOLDERS

Shareholder: Gauteng Partnership Fund	-	(10,793,533)
Terms and conditions (Refer to note 4.1)		

The carrying amount of loans to and from shareholders are denominated in the following currencies:

4.1. SHAREHOLDER: GAUTENG PARTNERSHIP FUND

Notional loans movement for the year

Gauteng Partnership Fund	-	(10,793,533)

Gauteng Partnership Fund gave a bridging finance facility to EDC for President Place project amounting to R10,793,533. Notice has been received on 14 March 2008 that the facility has been settled and is no longer liable to be repaid in terms of the signed agreement. The loan amount was transferred to Pharoe Park Housing Company for the acquisition of Presidents Place

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R

5. OPERATING LEASE ASSET (ACCRUAL)

At balance sheet date the company had outstanding lease commitments under an operating lease which falls due as follows:

Gestetner - 1 Photo copying machine
The Photo copying machine from Gestetner is on a straight line operating lease with no excalations in the monthly rental over the five year period.Additional text

6. TRADE AND OTHER PAYABLES

		2008 R	2007 R
Trade payables		15,568	59,888
VAT		91,397	370,666
Salaries & Wages Control		109,291	29,858
Accrued bonus		-	64,701
Unallocated Receipts		-	359
Leave Accrual		131,185	107,254
Bonus Accrual		67,498	-
Other Creditors		120,583	-
Related party creditor	21	5,550	-
Total Creditors		**541,072**	**632,726**

The accruals for leave pay was not discounted as the accruals is already reflected at its present value on the reporting date. When the accruals for leave pay is calculated it is based on the employees' salary scales as at the reporting date, when the accruals realises, it will realise at the employees' new salary scales, i.e. after their annual salary increase.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2008 R	2007 R
Cash on hand	750	750
Bank balances	1,258,681	488,475
Call investment deposits	-	9,883,636
	1,259,431	**10,372,861**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

8. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Furniture and fixtures	158,095	(72,584)	85,511	112,492	(44,451)	68,041
Motor vehicles	117,957	(78,588)	39,369	117,957	(55,047)	62,910
Office equipment	16,333	(12,023)	4,310	24,084	(8,277)	15,807
Computer equipment	162,691	(128,250)	34,441	143,182	(70,632)	72,550
Computer software	133,284	(133,284)	-	133,284	(89,118)	44,166
Total	**588,360**	**(424,729)**	**163,631**	**530,999**	**(267,525)**	**263,474**

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Other changes, movements	Depreciation	Total
Computer software	44,166	-	-	(44,166)	-
Furniture and fixtures	68,041	40,606	1,950	(25,086)	85,511
IT equipment	72,550	19,508	(15,225)	(42,392)	34,441
Motor vehicles	62,910	-	-	(23,541)	39,369
Office equipment	15,807	7,752	(15,502)	(3,747)	4,310
	263,474	**67,866**	**(28,777)**	**(138,932)**	**163,631**

Reconciliation of property, plant and equipment - 2007

	Opening Balance	Additions	Depreciation	Total
Furniture and fixtures	86,524	-	(18,483)	68,041
Motor vehicles	88,739	-	(25,829)	62,910
Office equipment	7,337	15,095	(6,625)	15,807
IT equipment	69,620	22,370	(19,440)	72,550
Computer software	88,589	-	(44,423)	44,166
	340,809	**37,465**	**(114,800)**	**263,474**

9. TRADE AND OTHER RECEIVABLES

	2008 R	2007 R
Sundry debtor	44,815	-
Sundry Receivables	-	20,190
Electricity deposit - Municipality	8,690	8,690
	53,505	**28,880**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

10. REVENUE

Management services rendered	5,544,001	4,347,630

11. INVESTMENT REVENUE

Interest revenue		
Interest earned - external investments	40,217	110,906
	-	-
	40,217	110,906

12. GOVERNMENT GRANTS AND SUBSIDIES

Provincial government

Current-year receipts	-	10,793,533

An application to Gauteng Partnership Fund was approved and the subsidies earmarked for the acquisition of Presidents Place was received. The transaction was not yet competed as at 30 June 2007

13. OTHER INCOME

Recoveries	877	-
Sundry revenue	13,778	1,228
Government grants	160,872	-
	175,527	**1,228**

14. OPERATING SURPLUS

Operating profit for the year is stated after accounting for the following:

Operating lease charges			
Premises			
• Contractual amounts		180,000	180,000
Equipment			
• Contractual amounts		80,022	74,439
		260,022	**254,439**
Surplus (deficit) on sale of property, plant and equipment		-	(9,642)
Depreciation on property, plant and equipment		138,933	116,338
Employee costs	16	3,519,075	2,690,917
Consulting and professional fees		576,832	230,195
Insurance		61,397	47,943
Repairs and maintenance		26,921	41,986
Security		3,852	30,596

15. AUDITORS' REMUNERATION

Fees	307,842	122,157

Notes to the Annual Financial Statements

16. EMPLOYEE COSTS

	2008 R	2007 R
Basic	3,014,860	2,388,606
Medical aid - company contributions	42,122	54,032
UIF	18,635	16,180
SDL	27,755	10,782
Leave pay provision charge	50,406	21,034
Company contribution to Provident Fund	173,296	152,283
Directors Fees	192,001	48,000
	3,519,075	**2,690,917**

Remuneration of the Chief Executive Officer

	2008 R	2007 R
Annual Remuneration	385,431	322,000
Car Allowance	99,000	108,000
Performance Bonuses	39,384	50,000
Contributions to UIF, Medical and Pension Funds	32,383	57,785
	556,198	**537,785**

Remuneration of the Chief Finance Officer

	2008 R	2007 R
Annual Remuneration	273,073	187,096
Car Allowance	77,000	54,000
Bonuses	28,158	28,169
Contributions to UIF, Medical and Pension Funds	42,861	41,733
	421,092	**310,998**

Remuneration of the Business Development Manager

	2008 R	2007 R
Annual Remuneration	223,152	188,417
Performance Bonuses	29,124	22,642
Contributions to UIF, Medical and Pension Funds	26,475	35,542
Car Allowance	20,565	38,000
	299,316	**284,601**

Remuneration of Non Executive Directors

	2008 R	2007 R
Directors fees	192,001	48,000

Remuneration per Director

	2008 R	2007 R
S Twala - Non executive director	48,000	16,000
D Ngoasheng - Non executive director	69,333	32,000
C Ucko - Non executive director	32,000	-
P Gerber - Non executive director	40,000	-
N Kara - Non executive director	2,667	-
	192,000	**48,000**

Notes to the Annual Financial Statements

		2008 R	2007 R

17. GENERAL EXPENSES

Advertising		27,999	13,966
Auditors remuneration	15	307,842	122,157
Bank charges		25,012	17,669
Cleaning		-	1,184
Commission paid		374	-
Computer expenses		45,356	64,584
Conferences and seminars		6,062	69,163
Consulting and professional fees		576,832	230,195
Debt collection		122,841	33,830
Fleet		19,311	12,775
Insurance		61,397	47,943
Lease rentals on operating lease		260,022	254,439
Magazines, books and periodicals		25,811	28,979
Pest control		7,590	-
Printing and stationery		62,587	51,485
Repairs and maintenance		26,921	41,986
Security (Guarding of municipal property)		3,852	30,596
Software expenses		59,864	30,489
Staff welfare		33,705	30,215
Telecommunication costs (Telephone and fax)		253,476	190,855
Training		110,469	77,671
Travel - local		44,202	31,346
Utilities		24,622	25,449
		2,106,147	**1,406,976**

18. TAXATION

Major components of the tax expense (income)

	2008	2007
Current		
South African Income tax - current period	-	41,000
Current	-	41,000
Deferred	-	-

19. CASH (USED IN) GENERATED FROM OPERATIONS

	2008	2007
(Deficit) surplus before taxation	(27,509)	221,070
Adjustments for:		
Depreciation and amortisation	138,933	116,338
Deficit on sale of assets	-	9,642
Interest received	(40,217)	(110,906)
Finance costs	23,099	14,821
Prior year adjustment	14,389	-
Changes in working capital:		
Trade and other receivables	(24,625)	(10,502)
Trade and other payables	(91,654)	463,933
	(7,584)	**704,396**

20. TAX (PAID) REFUNDED

	2008	2007
Balance at beginning of the year	(41,000)	-
Current tax for the year recognised in Statement of financial performance	-	(41,000)
Balance at end of the year	56,944	41,000
	15,944	**-**

Notes to the Annual Financial Statements

	2008 R	2007 R

21. RELATED PARTIES

Relationships	
Parent	Ekurhuleni Metropolitan Municipality
Other members of the group	Pharoe Park Housing Company
	Phase II Housing Company
	Lethabong Housing Institute

Related party balances

	2008 R	2007 R
Loan accounts - Owing by related parties		
Pharoe Park Housing Company	1,598,213	478,741
Germiston Phase II Housing Company	179,784	-
Lethabong Housing Company	-	465,081
	1,777,997	**943,822**
Loan accounts - Owing to related parties		
Gauteng Partnership Fund	-	10,793,533
Lethabong Housing Company	2,620,816	-
Germiston Phase II Housing Company	-	64,150
	2,620,816	**10,857,683**
Amounts included in Trade Payable regarding related parties		
Ekurhuleni Metropolitan Municipality	5,550	-

Related party transactions

	2008 R	2007 R
Management Services rendered to related parties		
Pharoe Park Housing Company	2,216,668	1,711,147
Phase II Housing Company	2,211,668	1,754,833
Lethabong Housing Institute	1,115,667	881,650
	-	-
	5,544,003	**4,347,630**
Municipal Services from related party		
Ekurhuleni Metropolitan Municipality	24,623	25,449
	-	-
	24,623	**25,449**
Financial Management Grant		
Ekurhuleni Metropolitan Municipality	183,394	-

Notes to the Annual Financial Statements

	2008 R	2007 R

22. PRIOR YEAR ERRORS

Accruals relating to leases was reversed

Provision for company tax was amended

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

	2008 R	2007 R
Statement of financial position		
Trade and other payables	(14,821)	-
Provision for Company tax	29,210	-
Statement of financial performance		
Contribution to Provision for Company Tax	(29,210)	-
Prior year adjustment on Creditors	14,821	-
Net effect on surplus/ deficit) for the year	**(14,389)**	**-**

23. RISK MANAGEMENT

Liquidity risk

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

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

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

Credit risk

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

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

Financial assets exposed to credit risk at year end were as follows:

The company is exposed to a number of guarantees for the overdraft facilities of Group companies and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

24. GOING CONCERN

Ekurhuleni Metropolitan Municipality together with Gauteng Partnership Fund commissioned a due dilligence report on the viability of the company. The company is experiencing cash flow challenges on a monthly basis. Several factors contribute to the viability and ultimately the going concern of the company. Therefore a long term sustainability strategy was prepared for the company. The company is dependant on continued support from the shareholders to remain a going concern.

25. TAX COMPUTATION

	2008 R	2007 R
Tax Reconciliation		
Tax loss for the period	(3,578)	-

Notes to the Annual Financial Statements

	2008	2007
	R	R

25. TAX COMPUTATION (continued)

The company had an estimated assessed loss thus no provision was made for company tax

EKURHULENI DEVELOPMENT COMPANY
APPENDIX E(1) for the ended Monday, 30 June, 2008
June 2008

GOVERNMENT TEMPLATE: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

	Current year 2007 Act. Bal. Rand	Current year 2007 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Trading and general (Filtered)	5,544,000	6,278,796	(734,796)	-	
	5,544,000	6,278,796	(734,796)	-	
Other income					
Income	175,527	451,791	(276,264)	-	
Interest received - investment	40,217	300,160	(259,943)	-	Investment income over budgeted
	215,744	751,951	(536,207)	-	
Total Revenue	5,759,744	7,030,747	(1,271,003)	-	
Expenses					
Employee related costs	(3,519,074)	(3,563,840)	44,766	-	
Depreciation - N/A	(138,933)	(159,996)	21,063	-	
Repairs and maintenance	(26,921)	(41,388)	14,467	-	
Finance costs	(23,099)	(25,000)	1,901	-	
General expenses	(2,079,227)	(2,405,783)	326,556	-	
	(5,787,254)	(6,196,007)	408,753	-	
Operating profit	(27,510)	834,740	(862,250)	-	
Other revenue and costs					
Net surplus/ (deficit) for the year	(27,510)	834,740	(862,250)	-	

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE EKURHULENI DEVELOPMENT COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Ekurhuleni Development Company (Pty) Ltd. which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages x to x.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ekurhuleni Development Company in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Basis for qualified opinion

10. **Property, Plant and Equipment**

    IAS 16: *Property, plant and equipment* requires that the useful lives should be assessed at each reporting date and that depreciation should take residual values into account. The entity did not assess the useful lives and residual values of property, plant and equipment. We could therefore not verify the valuation of assets. Alternative procedures could not be performed to quantify the amount of the potential misstatement to the valuation of assets.

Qualified Opinion

11. In my opinion except for the effect of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Ekurhuleni Development Company (Pty) Ltd. as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and the Companies Act, 1973.

Emphasis of matter

I draw attention to the following matter:

Going concern

12. As disclosed in note 24, the entity's revenue was based on its management services provided to the housing companies. The ability of the company to continue as a going concern was dependant on the viability of Pharoe Park Housing Company (Pty) Ltd and Phase II Housing Company (Pty) Ltd. At the date of this report, there was significant doubt over the ability of these

companies to continue as going concerns due to their inability to collect rental income.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal controls

13. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorized according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Property, Plant and Equipment			X		X

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Matters of governance

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	

Matters of governance	Yes	No
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.	X	

Unaudited supplementary schedules

15. The detailed statement of financial performance included as supplementary information set out on pages x to x and the budget information do not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion on it.

OTHER REPORTING RESPONSIBILITIES

REPORTING ON PERFORMANCE INFORMATION

16. I was engaged to review the performance information.

Responsibilities of the accounting officer

17. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

19. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit finding reporting below.

Audit finding (performance information)

21. The performance information was not submitted timeously for audit purposes. The company's internal monitoring systems and processes did not accommodate the timeous compilation of the information.

APPRECIATION

22. The assistance rendered by the staff of the Ekurhuleni Development Company (Pty) Ltd. during the audit is sincerely appreciated.

Auditor-General

Johannesburg

30 November 2008

AUDITOR-GENERAL

ANNEXURE “C”

PHAROE PARK HOUSING COMPANY

(REGISTRATION NUMBER 1997/016085/07)

TRADING AS PHAROE PARK HOUSING COMPANY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

DIRECTORS' RESPONSIBILITIES AND APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages s 5 to 32, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973 and which I have signed on behalf of the Company.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The disclosure requirements as per GRAP 1, 2 and 3 have also been incorporated in the financial statements

Executive Director

Friday, 29 August, 2008

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Social Housing Institution
DIRECTORS	Daphney Ngoasheng Sipho Mlungisi Twala Kara Nazir Ahmed Peter Clive Ucko Simon Pieter Gerber Michael Mokela Mokgohloa
REGISTERED OFFICE	Shop nr 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
BUSINESS ADDRESS	Shop nr 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
PARENT	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA
AUDITORS	Auditor General Registered Auditors
SECRETARY	ME von Ronge

Certificate by Company Secretary for the year ended June 30, 2008

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

ME von Ronge
Of: PHAROE PARK HOUSING COMPANY
Company Secretary
Friday, 29 August, 2008

CONTENTS

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

DIRECTORS' REPORT

1. INCORPORATION

The company was incorporated on 2 September 1997 and obtained its certificate to commence business on the same day.

2. GOING CONCERN

The Pharoe Park Housing Company PTY (LTD) at the year end at June 30, 2008, showed a surplus of R 8508.27 and the company's total asset exceed its liabilities by R1 334 523

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the company has resources in place to continue in operation for the foreseeable future.

The existence of the company is dependant on the continued support of its shareholders and furthermore the company is dependant on achieving sustainable profitability through the rental of properties at a social rate.

3. INTERNAL CONTROLS

3.1. VAT

PHAROE PARK HOUSING COMPANY (PTY) LTD is excempt from VAT registration.

4. POST STATEMENT OF FINANCIAL POSITION EVENTS

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

5. ACCOUNTING POLICIES

The Company has prepared its annual financial statements in terms of Standards of Generally Accepted Accounting Practice, except where these have been superseded by the 3 Standards of Generally Recognised Accounting Practice.

There were no changes in accounting policies during the year.

DIRECTORS' REPORT

6. CONTRIBUTION FROM OWNERS

The company was incorporated with an authorised share capital of 1,000 ordinary shares of R1 each of which 107 were issued at par value.

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

Ekurhuleni Metropolitan Municipality held 93,5 % of the ordinary share capital of the company as at 30 June 2008

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

7. DIRECTORS

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

Michael Mokgohloa is the only executive director appointed a sth Chief Executive Officer

All other directors are independant non-executive directors appointed by th Mayor of Ekurhuleni Metropolitan Municipalirty according to the Municipal :

Name	Nationality
Daphney Ngoasheng	SA Citizen
Sipho Mlungisi Twala	SA Citizen
Kara Nazir Ahmed	SA Citizen
Peter Clive Ucko	
Simon Pieter Gerber	SA Citizen
Michael Mokela Mokgohloa	SA Citizen

8. PARENT

The company's parent is Ekurhuleni Metropolitan Municipality

9. BANKERS

Amalgamated Bank of South Africa Limited

10. AUDITORS

In accordance with Section 92 of the Municipal Finance Management Act No 56 of 2003, the Auditor General will continue as the Company’s external auditors

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2008

	Note(s)	2008 R	2007 R
NET ASSETS AND LIABILITIES			
NET ASSETS			
Contribution from owner	2	4,000,100	4,000,100
Accumulated Surplus (Deficit)		(2,665,576)	(2,719,496)
		1,334,524	**1,280,604**
LIABILITIES			
NON-CURRENT LIABILITIES			
Shareholders loan	4	2,011,593	1,796,065
Long-term liabilities	5	10,938,328	12,123,961
Provincial Subsidies Grant	7	12,215,493	1,459,380
		25,165,414	**15,379,406**
CURRENT LIABILITIES			
Amount owing to related companies	3	2,517,423	1,058,369
Current portion of long-term liabilities	5	1,495,392	1,887,839
Trade and other payables	6	1,081,683	845,438
Rental Deposits Held		1,015,857	902,518
		6,110,355	**4,694,164**
Non-Current Liabilities		25,165,414	15,379,406
Current Liabilities		6,110,355	4,694,164
Liabilities of disposal groups		-	-
Total Liabilities		**31,275,769**	**20,073,570**
Equities		1,334,524	1,280,604
Liabilities		31,275,769	20,073,570
Total Net Assets and Liabilities		**32,610,293**	**21,354,174**
ASSETS			
NON-CURRENT ASSETS			
Investment property	9	17,641,283	17,908,193
Property, plant and equipment	10	8,809	304,081
Deposit paid on acquisition of Property		12,974,776	-
		30,624,868	**18,212,274**
CURRENT ASSETS			
Trade and other receivables	12	386,515	434,822
Cash and cash equivalents	8	1,598,909	2,707,080
		1,985,424	**3,141,902**
Non-Current Assets		30,624,868	18,212,274
Current Assets		1,985,424	3,141,902
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**32,610,292**	**21,354,176**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue	13	6,583,700	6,042,628
Revenue		6,583,700	6,042,628
Cost of sales		-	-
Other income	14	838,181	437,363
Operating expenses	&16&17&	(6,866,316)	(5,680,632)
		6,583,700	6,042,628
		(6,028,135)	(5,243,269)
Operating surplus		**555,565**	**799,359**
Investment revenue		996,882	256,986
Finance costs	16	(1,498,527)	(1,276,667)
Surplus (deficit) for the period from continuing operations		53,920	(220,322)
Surplus (deficit) from discontinued operations		-	-
Surplus (deficit) for the year		**53,920**	**(220,322)**

DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R
Revenue			
Rental facilities and equipment		6,583,700	6,042,628
		6,583,700	6,042,628
		-	-
Other income			
Recoveries		288,083	167,887
Sundry income		161,754	4,950
Interest received - investment		996,882	256,986
Government grants		388,344	191,030
Gain on interest rate fluctuation on interest free loan		-	73,496
		1,835,063	**694,349**
		(6,866,316)	(5,680,632)
Expenses (Refer to page 9)		**(6,866,316)**	**(5,680,632)**
		6,583,700	6,042,628
		1,835,063	694,349
		(6,866,316)	(5,680,632)
Operating surplus		**1,552,447**	**1,056,345**
Finance costs	16	(1,498,527)	(1,276,667)
Surplus (deficit) before taxation		53,920	(220,322)
Taxation		-	-
Surplus (deficit) for the year		**53,920**	**(220,322)**
Operating expenses			
Administration and management fees		2,211,667	1,895,265
Advertising		3,065	-
Assessment rates & municipal charges		-	-
Auditors remuneration	15	349,977	204,429
Bad debts	18	113,858	256,305
Bank charges		76,911	64,317
Cleaning		144,304	138,122
Conferences and seminars		3,465	1,480
Consulting and professional fees		13,260	-
Debt collection		2,683	-
Depreciation, amortisation and impairments		345,949	483,665
Insurance		357,436	63,084
Legal expenses		37,061	14,539
Magazines, books and periodicals		-	1,350
Pest control		34,392	35,348
Printing and stationery		8,436	980
Repairs and maintenance		1,004,446	671,503
Security (Guarding of municipal property)		749,905	680,430
Staff welfare		309,633	-
Telecommunication costs (Telephone and fax)		450	4,706
Utilities		1,099,418	1,165,109
		6,866,316	**5,680,632**

DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R

STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital	Share premium	Total share capital	Accumulated Surplus (Deficit)	Net Assets
		R	R	R	R	R
Balance at July 1, 2006		**107**	**3,999,993**	**4,000,100**	**(2,186,095)**	**1,814,005**
Changes in net assets						
Deficit for the year				-	(220,322)	(220,322)
Business combinations				-	(313,079)	(313,079)
Total changes		-	-	-	(533,401)	(533,401)
Balance at July 1, 2007		**107**	**3,999,993**	**4,000,100**	**(2,719,496)**	**1,280,604**
Changes in net assets						
Surplus for the year					53,920	53,920
Total changes		-	-	-	53,920	53,920
Balance at June 30, 2008		**107**	**3,999,993**	**4,000,100**	**(2,665,576)**	**1,334,524**

CASH FLOW STATEMENT

	Note(s)	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		17,218,532	6,184,148
Cash paid to suppliers and employees		(18,034,899)	(5,328,852)
Cash (used in) generated from operations	19	(816,367)	855,296
Interest income		996,882	256,986
Finance costs		(1,498,527)	(1,276,667)
Net cash from operating activities		**(1,318,012)**	**(164,385)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	-	(9,200)
Loans to group companies repaid		-	738,018
Proceeds from loans from group companies		1,459,054	-
Proceeds from interest free loan		-	73,496
Net cash flows of discontinued operations		-	(34,821)
Net cash utilised in investing activities		**1,459,054**	**767,493**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term liabilities		(1,578,080)	(1,611,239)
Movement in rental deposits		113,339	(1,390)
Repayment of shareholders loan		215,528	(73,496)
Net cash from financing activities		**(1,249,213)**	**(1,686,125)**
Net decrease in cash and cash equivalents		**(1,108,171)**	**(1,083,017)**
Cash at the beginning of the period		2,707,080	3,790,097
Cash and cash equivalents at end of the period	8	**1,598,909**	**2,707,080**

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice(GAAP) including any intrepretations such Statements issued by the Accounting Practice Board, the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP
GRAP1:	Presentation of financial statements	AC 101: Presentation of financial statements
GRAP2:	Cash flow statements	AC 118: Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1,2 and 3 has resulted in the following changes in the presentation of the financial statements:

1.1. Terminology differences:

Standard of GRAP	**Replacement Statement of GAAP**
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net Assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained Earnings
Contributions from Owners	Share Capital
Distributions to Owners	Dividends

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. Specific information has been presented seperately on the Statement of Financial Position, such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions.

1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

These accounting policies are consistent with the previous year.

1.1 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

1.2 GOING CONCERN ASSUMPTION

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

1.3 OWNERS CONTRIBUTIONS AND NET ASSETS

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

ACCOUNTING POLICIES

1.4 INVESTMENT PROPERTY

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Investment properties, which are properties held to earn rental revenue or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property.

COST MODEL

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

ITEM	USEFUL LIFE
Property - land	indefinite
Property - buildings	50 years

1.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation.

1.6 IMPAIRMENT OF ASSETS

The company assesses at each statement of financial position date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs to is determined

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Investment property are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

ACCOUNTING POLICIES

1.7 FINANCIAL ASSETS AND LIABILITIES

INITIAL RECOGNITION

Recognition
The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Measurement
Financial instruments sre initially measured at cost, which include transaction costs.

Subsequent recognition
Subsequent to initail recognition these instruments are measured as set out below

FAIR VALUE DETERMINATION

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the annual financial statements establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

AMOUNTS OWING BY (TO) RELATED COMPANIES

These include loans to holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to (from) group companies are classified as loans and receivables.

TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within annual financial statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against company in the income statement.

Trade and other receivables are classified as loans and receivables.

Debtors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

ACCOUNTING POLICIES

1.7 FINANCIAL ASSETS AND LIABILITIES (continued)

Amounts that are receivable within 12 months from the reporting date are classified as current.

TRADE AND OTHER PAYABLES

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

ACCOUNTING POLICIES

1.8 REVENUE

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Municipailty's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after eliminated revenue within departments of the Municipality. Revenue is recognised as follow:

1.8.1 REVENUE FROM EXCHANGE TRANSACTIONS

Interest and rentals are recognised on a time proportion basis.

All other revenue is recognised as it accrues.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable.

1.9 CONDITIONAL GRANTS AND RECEIPTS

Government grants are recognised as deffered income when there is reasonable assurance that:
- the company will comply with the conditions attaching to the government grant; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match the grants with the related costs that they are intended to compensate.

In particular, the government grant pertaining to land received from the parent municipality is recognised as income at cost over a straight- line period of fifty years, being the estimated useful life of the residential accomodation of the land.

1.10 TAX

CURRENT TAX ASSETS AND LIABILITIES

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

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 statement of financial position date.

ACCOUNTING POLICIES

1.10 TAX (continued)

DEFERRED INCOME TAX

Defferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit and is accounted for using the balance sheet liability method.

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

Deferred tax assets and liabilities are offset when there is a legally enforcible right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised for all deductable temporary differences to the extent that it is probable that taxable profit will be available against which the deductable temporary difference can be utilised, unless the deferred tax asset arises from the initial recognision of an asset or liability in a transaction that:
a) is not a business combination; and
b)at the time of th 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 profits will be available against which the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
a) the initial recognition of goodwill; or
b) goodwill for which amortisation is not deductible for tax purposes; or
c) the initial recognition of an asset or liability in a transaction which:
- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

TAXATION

Income tax expense represents the sum of current tax and deferred tax.

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
a) a transaction or event which is recognised, in the same or a different period, directly in equity, or
b) a business combination.

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

ACCOUNTING POLICIES

1.11 UNAUTHORISED EXPENDITURE

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

1.12 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

1.13 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. If the expenditure is not condoned by the relevant authority it is accounted for as a current asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

1.14 COMPARATIVES INFORMATION

1.14.1 CURRENT YEAR COMPARATIVES

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.14.2 PRIOR YEAR COMPARATIVES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
2. CONTRIBUTION FROM OWNER		
AUTHORISED		
1000 Ordinary shares of R1 each	1,000	1,000
ISSUED		
Ordinary	107	107
Share premium	3,999,993	3,999,993
	4,000,100	**4,000,100**

107 Ordinary shares at R1 each

3. AMOUNTS OWING BY (TO) RELATED COMPANIES

SUBSIDIARIES

3. AMOUNTS OWING BY (TO) RELATED COMPANIES (continued)

Group co ID 1	(1,598,213)	(478,741)
Terms and conditions		
Group co ID 2	(819,210)	(579,628)
Terms and conditions		
Group co ID 3	(100,000)	-
Terms and conditions		
	(2,517,423)	**(1,058,369)**

4. LOANS TO/FROM SHAREHOLDERS

Gauteng Partnership Fund (GPF)	(2,011,593)	(1,796,065)

Th loan from Gauteng Partnership fund is interest free and repayable by equal instalments of R700 000 annually from the 1st of February 2011. The loan was received in February 2005 when GPF acquired 6.5% shareholding of the company.

4.1. GAUTENG PARTNERSHIP FUND (GPF)

NOTIONAL LOANS MOVEMENT FOR THE YEAR		
Loan at nominal amount	(1,796,065)	(1,869,561)
(Less) Gain on receipt of interst free loan	(215,528)	73,496
Balance at end of year	**(2,011,593)**	**(1,796,065)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R
5.	**LONG-TERM LIABILITIES**		
	Loan - woon conmcept @ 5 % interest The initial loan of R500 000 from Stiching Woonconcept will be paid back in 10 equal instalments per annum commencing on 1 December 2001 and ending 1 December 2010. Interest is charged from the date of the instalment at 5 % per annum and will be debited on the last day of the month	150,000	225,202
	Unsecured loan - NHFC @ 7.68% The NHFC unsecured (HIDF subordinated)loan of R6 398 745 is payable in 134 equal instalments commencing on the first business day of the 26th month, calculated from the date of the first advance, which was on the 17th June 1998. Interest was charged at 9% per annum, capitalised for 26 months where after it is payable with the loan repayment. The interest was negotiated from 01 March 2002, the new interest rate is 7.68%	3,925,353	5,556,176
	Secured loan - NHFC @ prime less 1% The NHFC secured loan is secured with a First Continuous Covering Mortage Bond for R12 300 000 over that consolidated property repayable in 199 equal monthly instalments commencing on the fifth business day of the month calculated from the date of the first advance, interest payable at fixed rate of 14 % per annum. The interst was negotiated and changed effect from 1 February 2005 to prime less 1%.	6,862,975	8,258,849
		10,938,328	**14,040,227**
		10,938,328	14,040,227
		-	-
	CURRENT PORTION OF LONG TERM LIABILITIES		
	Short term portion of NHFC loan	1,495,392	1,887,839
	NON-CURRENT LIABILITIES		
	National Housing Funding Corporation	10,938,328	12,123,961
	CURRENT LIABILITIES		
	National Housing Funding Corporation	1,495,392	1,887,839
		10,938,328	12,123,961
		1,495,392	1,887,839
		12,433,720	**14,011,800**

			2008 R	2007 R
6.	**TRADE AND OTHER PAYABLES**			
	Trade payables		13,261	68,056
	Payments received in advance		156,447	199,194
	Other accrued expenses		-	9,120
	Sundry Creditors		129,994	(32,827)
	Unallocated Receipts		6,974	141,379
	Consumer creditor		-	23,708
	Related party creditor	21	775,007	436,808
	Total Creditors		**1,081,683**	**845,438**

7. PROVINCIAL SUBSIDIES GRANT

DEFERRED INCOME COMPRISES:

	2008 R	2007 R
Non-monetary Government Grants	1,459,380	1,496,800
Institutional Subsidies	10,793,533	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
7. PROVINCIAL SUBSIDIES GRANT (continued)		
Income recognition during the year	(37,420)	(37,420)
Total Conditional Grants and Receipts	**12,215,493**	**1,459,380**
MOVEMENT DURING THE YEAR:		
Balance at the beginning of the year	1,459,380	1,459,380
Additions during the year	10,793,533	-
Income recognition during the year	(37,420)	-
Balance at the end of the year	**12,215,493**	**1,459,380**

Deferred income resulted from land donated to Pharoe Park by Ekurhuleni Metropolitan Municipality and is recognised as revenue over the useful life of the investment property.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2008	2007
Bank balances	498,909	57,080
Call investment deposits	1,100,000	2,650,000
	1,598,909	**2,707,080**

9. INVESTMENT PROPERTY

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	21,543,704	(3,902,421)	17,641,283	21,419,641	(3,511,448)	17,908,193

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

9. INVESTMENT PROPERTY (continued)

RECONCILIATION OF INVESTMENT PROPERTY - 2008

	Opening Balance	Transfers	Depreciation	Total
Investment property	17,908,193	124,062	(390,972)	17,641,283

RECONCILIATION OF INVESTMENT PROPERTY - 2007

	Opening Balance	Depreciation	Total
Investment property	18,336,585	(428,392)	17,908,193

PLEDGED AS SECURITY

The loan from NHFC is secured First Continuous Covering Mortageover the consolidated property of the concolidated property.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008	2007
	R	R

9. INVESTMENT PROPERTY (continued)

DETAILS OF PROPERTY

The property comprises of:
- Erf 122 to 128, 130, 135 to 139, 263, 265,267, 269 to 271, 287 and 305 to 308 in WEST GERMISTON

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

Mortage bond: B24620/1999 for R12,300,000 in favour of National Housing Finance Corp Ltd.

Fair value of investment property amounting to R52 164 700(R 50 255 000 June 2007) was determined at year end 30 June 2007 by an independant sworn property appraiser based on most recent prices achieved in arms length transactions of similar properties in the area.

As at 30 June 2008 the fair value adjustment was determined by the House Price Index of ABSA at 3.8% as per fair value policy of the company which states that a Independant valuation has to be done every 3 years there after an adjustment can be done in terms of a published house price index from one of the Financial Institutions eg. ABSA

Investment property at cost

Land	R 1 995 063
Buildings	R 19 548 641
Total	**R 21 543 704**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

10. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	-	-	-	252,619	(64,242)	188,377
Furniture and fixtures	-	-	-	126,017	(126,017)	-
Office equipment	-	-	-	2,405	(2,405)	-
IT equipment	-	-	-	16,441	(16,441)	-
Computer software	-	-	-	20,919	(20,919)	-
Park facilities	-	-	-	133,263	(17,559)	115,704
Other property, plant and equipment	20,626	(11,817)	8,809	11,426	(11,426)	-
Total	**20,626**	**(11,817)**	**8,809**	**563,090**	**(259,009)**	**304,081**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2008

	Opening Balance	Transfers	Other changes, movements	Depreciation	Total
Buildings	188,377	-	(413,629)	-	-
Park facilities	115,704	-	(115,704)	-	-
Other property, plant and equipment	-	9,200	-	(391)	8,809
	304,081	**9,200**	**(529,333)**	**(391)**	**8,809**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2007

	Opening Balance	Depreciation	Total
Buildings	472,805	(59,176)	188,377
Furniture and fixtures	126,017	(126,017)	-
Office equipment	2,405	(2,405)	-
IT equipment	16,441	(16,441)	-
Computer software	20,919	(20,919)	-
Other property, plant and equipment	11,426	(11,426)	-
Park facilities	133,263	(17,559)	115,704
	783,276	**(253,943)**	**304,081**

11. ASSET RECONCILIATION

During 200708 an internal asset audit was done to capitalise assets. Changes to the assets was as followed:

1. Park facilities to the amount of R133 263 was found to be Land R 124 063 and R 9 200 Play ground equipment. It was subsequently reclassified to Land R124 063 and R9 200 Other Equipment

2. Building cost capitalised at R 413 629 was epensed as it did not represent an asset since it was repairs & maintenance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R

12. TRADE AND OTHER RECEIVABLES

		2008 R	2007 R
Trade debtors	12.1	263,115	431,550
Interest receivable		123,400	850
Urban Renewal Grant		-	2,422
		386,515	**434,822**

12.1. TRADE DEBTORS

	2008 R	2007 R
Gross trade receivables	877,980	1,324,038
Less: Provision for bad debts	(614,865)	(892,490)
Less: Discounting of Receivables as a reult of carrying trade and other receivables at amortised cost.	-	-
	263,115	**431,548**

		2008 R	2007 R

13. REVENUE

Rental facilities and equipment		6,583,700	6,042,628

14. OTHER INCOME

Recoveries		288,083	167,887
Sundry revenue		161,754	4,950
Government grants		388,344	191,030
Profit and loss on sale of assets and liabilities		-	73,496
		838,181	**437,363**

15. AUDITORS' REMUNERATION

Fees		349,977	204,429

16. FINANCE COSTS

Current borrowings		1,274,043	1,266,637
Amortisation of held to maturity liabilities		215,528	-
Other interest paid		8,956	10,030
		1,498,527	**1,276,667**

17. GENERAL EXPENSES

Administration and management fees		2,211,667	1,895,265
Advertising		3,065	-
Assessment rates & municipal charges		-	-
Auditors remuneration	15	349,977	204,429
Bad debts	18	113,858	256,305
Bank charges		76,911	64,317
Cleaning		144,304	138,122
Conferences and seminars		3,465	1,480
Consulting and professional fees		50,321	14,539
Debt collection		2,683	-
Insurance		357,436	63,084
Magazines, books and periodicals		-	1,350
Pest control		34,392	35,348
Printing and stationery		8,436	980
Repairs and maintenance		1,004,446	671,503
Security (Guarding of municipal property)		749,905	680,430
Staff welfare		309,633	-
Telecommunication costs (Telephone and fax)		450	4,706
Utilities		1,099,418	1,165,109
		6,520,367	**5,196,967**

18. BAD DEBTS

Contributions to bad-debt provision		113,858	256,305

Notes to the Annual Financial Statements

19. CASH (USED IN) GENERATED FROM OPERATIONS

	2008 R	2007 R
Surplus (deficit) before taxation	53,920	(220,322)
ADJUSTMENTS FOR:		
Depreciation and amortisation	345,949	483,665
Gain on interest free loan form shareholders	-	(73,496)
Transfer of non current assets to other classifications	216,232	-
Interest received	(996,882)	(256,986)
Finance costs	1,498,527	1,276,667
Prior year adjustment	-	(313,079)
CHANGES IN WORKING CAPITAL:		
Trade and other receivables	48,305	(121,584)
Deposit paid on Property to acquire	(12,974,776)	-
Trade and other payables	236,245	80,431
Provincial Subsidies Grant	10,756,113	-
	(816,367)	**855,296**

20. COMMITMENTS

AUTHORISED CAPITAL EXPENDITURE

ALREADY CONTRACTED FOR BUT NOT PROVIDED FOR

	2008 R	2007 R
• Investment property	23,325,224	-

This committed expenditure relates to property and will be financed by a loan from National Housing Funding Corporation and a R6 million interest free loan from Gauteng Partnership Fund.

OPERATING LEASES – AS LESSEE (EXPENSE)

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

OPERATING LEASES – AS LESSOR (INCOME)

Certain of the company's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

Notes to the Annual Financial Statements

	2008 R	2007 R

21. RELATED PARTIES

Relationships	
Parent	Ekurhuleni Metropolitan Municipality
Other members of the group	Ekurhuleni Development Company
	Phase II Housing Company
	Lethabong Housing Institute

RELATED PARTY BALANCES

	2008 R	2007 R
LOAN ACCOUNTS - OWING TO RELATED PARTIES		
Ekurhuleni Development Company	1,598,213	478,740
Germiston Phase II	819,210	579,627
Lethabong Housing Institute	100,000	-
	2,517,423	**1,058,367**
Group co ID 2	-	-
AMOUNTS INCLUDED IN TRADE PAYABLE REGARDING RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	775,007	436,808

RELATED PARTY TRANSACTIONS

	2008 R	2007 R
PURCHASES FROM RELATED PARTIES		
Ekurhuleni development company	2,191,000	1,895,265
Ekurhuleni Metropolitan Municipality	1,134,237	1,165,109
	-	-
	3,325,237	**3,060,374**

22. PRIOR YEAR ERRORS

The changes to the prior year figures relates to
1. Changes in classification of assets
2. Restatement of the woon concept loan account
3. Unidentifiable receivables and payables
4. Deprciation on reclassified assets.

The changes to the balances was not restated in the prior year.

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

	2008 R	2007 R
STATEMENT OF FINANCIAL POSITION		
Property, plant and equipment	220,186	-
Borrowings	14,877	-
Trade and other receivables	151,188	-
Trade and other payables	(32,827)	-
Accumulated Depreciation	(5,066)	-
Depreciation correction of prior year	(45,413)	-
STATEMENT OF FINANCIAL PERFORMANCE		
Old balances cleared	(118,361)	-
Asset disposal - Asset register	(220,186)	-
Correction of Balances	(19,945)	-
Correction of prior year depreciation	45,413	-
Net effect on surplus/ deficit) for the year	**(313,079)**	**-**

Notes to the Annual Financial Statements

	2008	2007
	R	R

23. COMPARATIVE FIGURES

Comparative figures have been presented of the company.

24. RISK MANAGEMENT

LIQUIDITY RISK

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

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

CREDIT RISK

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

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

Notes to the Annual Financial Statements

	2008 R	2007 R

25. GOING CONCERN

Ekurhuleni Metropolitan Municipality together with Gauteng Partnership Fund the sahareholders of Pharoe Park Housing Company commissioned a due dillegence report on the viability of the company. The company is experiencing cash flow challenges on a monthly basis. Several factors contribute to the viaiblity and ultimately the going concern of the company. Therefore a long term sustainablility strategy was prepared for the company. The company is dependant on continued support form the shareholders in order to remain a going concern.

26. TAX COMPUTATION

TAX RECONCILIATION	2008 R	2007 R
Tax loss at the start of the period	(2,146,262)	(1,824,435)
Tax loss for the period	(275,968)	(321,827)
Provision for tax	2,467	-
	(2,419,763)	**(2,146,262)**

The company has substantial tax losses. The provision for tax are nett of against the assessed losses for the company.

PHAROE PARK HOUSING COMPANY
APPENDIX E(1) for the ended Monday, 30 June, 2008
June 2008

GOVERNMENT TEMPLATE: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

	Current year 2008 Act. Bal. Rand	Current year 2008 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rental facilities and equipment	6,583,700	7,019,285	(435,585)	-	Although the rental tariffs was increased during the year, Income on rental was over budgeted. Corrective measures for future budgets were taken
	6,583,700	7,019,285	(435,585)	-	
Other income					
Other income	838,181	605,596	232,585	-	Under budgeted recoveries. The company started to recover refuse during March 2008 which increased the recovery income
Interest received - investment	996,882	1,000,000	(3,118)	-	
	1,835,063	1,605,596	229,467	-	
Total Revenue	8,418,763	8,624,881	(206,118)	-	
Expenses					
Bad debts	(113,858)	(130,000)	16,142	-	
Depreciation - N/A	(345,949)	(380,000)	34,051	-	
Repairs and maintenance	(1,004,446)	(733,806)	(270,640)	-	Repairs budget moved to Operations
Finance costs	(1,498,527)	(1,441,445)	(57,082)	-	
General expenses	(5,402,061)	(5,910,733)	508,672	-	
	(8,364,841)	(8,595,984)	231,143	-	
Operating profit	53,922	28,897	25,025	-	
Other revenue and costs					
Net surplus/ (deficit) for the year	53,922	28,897	25,025	-	

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE PHAROE PARK HOUSING COMPANY (PTY) LIMITED FOR THE YEAR ENDED 30 JUNE 2008

Introduction

1. I have audited the accompanying financial statements of Pharoe Park Housing Company (Pty) Limited which comprise the statement of financial position as at 30 June 2008 statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the director's report, as set out on pages x to x.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by Pharoe Park Housing Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Pharoe Park Housing Company (Pty) Ltd as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and the Companies Act, 1973.

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

Going concern

11. As disclosed in Note 25 to the financial statement, the company's inability to collect rental income from its debtors had a negative impact on the company's cash flow and its ability to fund operating costs. This casts doubt over the ability of the company to continue as a going concern.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matters of governance

12. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines, as set out in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for the consideration prior the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.	X	

Unaudited supplementary schedules

13. The municipal entity provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements.* The supplementary budget information set out on pages x to x does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

14. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

15. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

16. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008.*
17. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

19. The performance information was not submitted timeously for audit. The company's internal monitoring systems and processes did not accommodate the timeous compilation of the information.

APPRECIATION

20. The assistance rendered by the staff of the Pharoe Park Housing Company (Pty) Ltd during the audit is sincerely appreciated.

Auditor-General

Johannesburg

30 November 2008

AUDITOR-GENERAL

ANNEXURE “D”

GERMISTON PHASE II HOUSING COMPANY PTY (LTD)
(REGISTRATION NUMBER 2000/007937/07)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

DIRECTORS' RESPONSIBILITIES AND APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages s 4 to 24, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973 and which I have signed on behalf of the company.

The annual financial statements are prepared in accordance with South African Statements of Genereally Accepted Accounting Practices. The disclosure requirements as per GRAP 1,2 and 3 have also been incorporated in the financial statements

Executive Director

Friday, 29 August, 2008

Certificate by Company Secretary for the year ended June 30, 2008

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

ME von Ronge
Of: GERMISTON PHASE II HOUSING COMPANY PTY (LTD)
Company Secretary
Friday, 29 August, 2008

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Social Housing Institution
DIRECTORS	Sipho Mlungisi Twala Daphney Ngoasheng Clive Peter Ucko Kara Nazir Ahmed Simon Pieter Gerber Michael Mokela Mokgohloa
BUSINESS ADDRESS	No 9 Cnr Jack & Queen Street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
PARENT	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA
AUDITORS	Kwinana and Associates(Gauteng) incorporated (on behalf of the Auditor General)
SECRETARY	ME von Ronge

DIRECTORS' REPORT

1. INCORPORATION

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

2. GOING CONCERN

The Phase II Housing Company PTY(LTD) at the year end at June 30, 2008,showed a surplus of R33 979 and the company's total assets exceeded the liabilities by R3 991 901.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the company has resources in place to continue in operation for the foreseeable future.

The existence of the company is dependant on the continued support of its shareholders and furthermore the company is dependant on achieving sustainable profitability through the rental of properties at a social rate.

3. INTERNAL CONTROLS

3.1. VAT

GERMISTON PHASE II HOUSING COMPANY PTY (LTD) is exempt from VAT registration.

4. POST STATEMENT OF FINANCIAL POSITION EVENTS

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

5. ACCOUNTING POLICIES

The International Financial Reporting Standards were not applied. Generally Accepted Accounting Practice, together with the South African Generally Recognised Accounting Practice 1, 2 and 3 were applied, in consistency with prior year.

The Company has prepared its annual financial statements in terms of Standards of Generally Accepted Accounting Practice, except where these have been superseded by the 3 Standards of Generally Recognised Accounting Practice.

There were no changes in accounting policies during the year.

6. CONTRIBUTION FROM OWNERS

The company was incorporated with an authorised share capital of 1,000 ordinary shares of R1 each of which 108 were issued at par value.

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

There were no changes in the authorised or issued contributions from owners of the company during the year under review.

Ekurhuleni Metropolitan Municipality held 92.6% of the ordinary share capital of th company as at 30 June 2007.

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

7. DIRECTORS

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

Michael Mokgohloa is the only executive director appointed as the Chief Executive officer.

All other directors are independant non-executive directors appointed by the Ekurhuleni Metropolitan Municipality.

DIRECTORS' REPORT

Name	Nationality
Sipho Mlungisi Twala	SA Citizen
Daphney Ngoasheng	SA Citizen
Clive Peter Ucko	SA Citizen
Kara Nazir Ahmed	SA Citizen
Simon Pieter Gerber	SA Citizen
Michael Mokela Mokgohloa	SA Citizen

8. PARENT

The company's parent is Ekurhuleni Metropolitan Municipality

9. BANKERS

Amalgamated Bank of South Africa Limited

10. AUDITORS

In accordance with Section 92 of the Municipal Finance Management Act No 56 of 2003,Kwinana and Associates(Gauteng) incorporated (on behalf of the Auditor General) will continue as the Company's external auditors

CONTENTS

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

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2008

	Note(s)	2008 R	2007 R
NET ASSETS AND LIABILITIES			
NET ASSETS			
Contribution from owners	2	4,000,100	4,000,100
Accumulated Surplus (Deficit)		(8,199)	(75,898)
		3,991,901	**3,924,202**
LIABILITIES			
NON-CURRENT LIABILITIES			
Shareholders Loan	4	2,011,593	1,796,065
Long-term liabilities	5	19,849,327	21,286,595
Deferred income	7	1,382,520	1,416,240
		23,243,440	**24,498,900**
CURRENT LIABILITIES			
Loans from group companies	3	271,418	-
Current portion of long-term liabilities	5	1,497,118	1,608,742
Trade and other payables	6	760,132	753,381
Rental Deposits		1,349,528	1,248,737
		3,878,196	**3,610,860**
Total Liabilities		**27,121,636**	**28,109,760**
Total Net Assets and Liabilities		**31,113,537**	**32,033,962**
ASSETS			
NON-CURRENT ASSETS			
Investment property	9	26,396,042	26,977,455
CURRENT ASSETS			
Loans to group companies	3	819,210	643,777
Trade and other receivables	10	322,105	570,369
Cash and cash equivalents	8	3,576,180	3,842,361
		4,717,495	**5,056,507**
Total Assets		**31,113,537**	**32,033,962**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue	11	8,517,257	8,068,924
Other income	12	638,258	412,734
Operating expenses	15	(6,878,598)	(6,168,707)
Operating surplus		**2,276,917**	**2,312,951**
Investment revenue		399,152	269,047
Finance costs	14	(2,642,090)	(2,557,668)
Surplus for the year		**33,979**	**24,330**

DETAILED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue			
Rental facilities and equipment		8,517,257	8,068,924
Other income			
Recoveries		463,961	299,416
Sundry Income		140,577	6,102
Interest received - investment		399,152	269,047
Deferred income on asset-based Goverment grants recognised during the year		33,720	33,720
Gain on receipt of shareholders loan carried at amortised cost		-	73,496
		1,037,410	**681,781**
Operating expenses			
Administration and management fees		(2,216,667)	(1,931,517)
Auditors remuneration	13	(239,103)	(213,095)
Bad debts	16	(265,338)	(447,201)
Bank charges		(93,704)	(79,055)
Cleaning		(223,353)	(209,722)
Conferences and seminars		-	(1,480)
Consulting and professional fees		(36,518)	-
Debt collection		(88,620)	(94,593)
Depreciation, amortisation and impairments		(581,413)	(581,413)
Insurance		(371,731)	(74,610)
Levies		-	(1,029)
Magazines, books and periodicals		-	(1,800)
Pest control		(38,524)	(42,597)
Printing and stationery		-	(848)
Repairs and maintenance		(481,387)	(585,840)
Security (Guarding of municipal property)		(797,670)	(781,590)
Staff welfare		(310,333)	-
Telecommunication costs (Telephone and fax)		-	(1,069)
Utilities		(1,134,237)	(1,121,248)
		(6,878,598)	**(6,168,707)**
Operating surplus		**2,676,069**	**2,581,998**
Finance costs	14	(2,642,090)	(2,557,668)
Surplus for the year		**33,979**	**24,330**

Refer to Appendix E(1) for comparison with the approved budget

STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital	Share premium	Total share capital	Accumulated Surplus (Deficit)	Net Assets
		R	R	R	R	R
Balance at July 1, 2006		**108**	**3,999,992**	**4,000,100**	**(100,228)**	**3,899,872**
Changes in net assets						
Surplus for the year				-	24,330	24,330
Total changes		-	-	-	24,330	24,330
Balance at July 1, 2007		**108**	**3,999,992**	**4,000,100**	**(75,898)**	**3,924,202**
Prior Year adjustment				-	33,720	33,720
Net income (expenses) recognised directly in equity		-	-	-	33,720	33,720
Surplus for the year					33,979	33,979
Total recognised income and expenses for the year		-	-	-	67,699	67,699
Total changes		-	-	-	67,699	67,699
Balance at June 30, 2008		**108**	**3,999,992**	**4,000,100**	**(8,199)**	**3,991,901**

CASH FLOW STATEMENT

	Note(s)	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		9,554,667	8,341,449
Cash paid to suppliers and employees		(6,475,042)	(4,967,933)
Cash generated from operations	17	3,079,625	3,373,516
Interest income		399,152	269,047
Finance costs		(2,642,090)	(2,557,668)
Net cash from operating activities		**836,687**	**1,084,895**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to group companies repaid		95,985	-
Loans advanced to group companies		-	57,501
Proceeds from amaortisation of interest free loan		-	73,496
Net cash from investing activities		**95,985**	**130,997**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term liabilities		(1,548,892)	(1,489,665)
Increase (Decrease) in rental deposits		100,791	(17,335)
Proceeds from shareholders loan		215,528	-
Repayment of shareholders loan		-	(73,496)
Other non-cash item		33,720	-
Net cash from financing activities		**(1,198,853)**	**(1,580,496)**
Net (decrease) increase in cash and cash equivalents		**(266,181)**	**(364,604)**
Cash and cash equivalents at the beginning of the year		3,842,361	4,206,965
Cash and cash equivalents at end of period	8	**3,576,180**	**3,842,361**

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, the prescribed standards of Generally Recognised Accounting Practices(GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statements as follows:

Standard of GRAP		Replaced Statement of SA GAAP	
GRAP1:	Presentation of financial statements	AC 101:	Presentation of financial statements
GRAP2:	Cash flow statements	AC 118:	Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103:	Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP1, 2 and 3 has resulted in the following changes in presentation of the financial statements:

1.1. Terminology differences:

Standard of GRAP	Replacement Statement of GAAP
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained earnings
Contributions from Owners	Share capital
Distributions to Owners	Dividends

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. Specific information has been presented seperately on the statement of financial position, such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions;
must be presented separately on the statement of financial position.

1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

These accounting policies are consistent with the previous year.

1.1 OWNERS CONTRIBUTIONS AND NET ASSETS

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

ACCOUNTING POLICIES

1.2 INVESTMENT PROPERTY

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Investment properties, which are properties held to earn rental revenue or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property.

COST MODEL

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

ITEM	USEFUL LIFE
Property - land	indefinite
Property - buildings	50 years

1.3 IMPAIRMENT OF ASSETS

The company assesses at each statement of financial position date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The redution is an impairment loss.

If its is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use..
Investment property are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.4 FINANCIAL ASSETS AND LIABILITIES

INITIAL RECOGNITION

Recognition
The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Measurement
Financial assets and financial liabilities are initially measured at cost, which include transaction costs.

Subsequent recognition
Subsequent to initial recognition these instruments are measured as set out below.

ACCOUNTING POLICIES

1.4 FINANCIAL ASSETS AND LIABILITIES (continued)

FAIR VALUE DETERMINATION

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the annual financial statements establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

LOANS TO (FROM) GROUP COMPANIES

These include loans to holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to (from) group companies are classified as loans and receivables.

TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within annual financial statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against company in the income statement.

Trade and other receivables are classified as loans and receivables.

Debtors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

ACCOUNTING POLICIES

1.4 FINANCIAL ASSETS AND LIABILITIES (continued)

TRADE AND OTHER PAYABLES

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 REVENUE

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Municipality's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after eliminated revenue within departments of the Municipality.

1.6 CONDITIONAL GRANTS AND RECEIPTS

Government grants are recognised as deffered income when there is reasonable assurance that:
- the company will comply with the conditions attached to the government grant, and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match the grants with the related costs which they are intended to compensate.

In particular, the government grant pertaining to land received from the parent municipality is recognised as income at cost over a straight-line period of fifty years, being the estimated useful life of the residential accomodation on the land.

1.7 TAX

CURRENT TAX ASSETS AND LIABILITIES

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

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 statement of financial position date.

ACCOUNTING POLICIES

1.7 TAX (continued)

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method.
Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realised or the liability setttled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its curreent tax assets and liablities on a net basis.
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 goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit 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 profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:
a) is not a business combination; and
b) at the time of the transaction, affects neither accounting profit 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 profit will be available against which the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxabel profits will be available to allow all or part of the asset to be recovered

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
a) the initial recognition of goodwill; or
b) goodwill for which amortisation is not deductable for tax purposes; or
c) the initial recognition of an asset or liability in a transaction which:
i) is not a business combination; and
ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)

TAXATION

Income Tax expense represents the sum of current tax and deferred tax.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:
a) a transaction or event which is recognised, in the same or a different period, directly in equity, or
b) a business combination.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
2. CONTRIBUTION FROM OWNERS		
AUTHORISED		
1000 Ordinary shares of R1 each	1,000	1,000
ISSUED		
Ordinary	108	108
Share premium	3,999,992	3,999,992
	4,000,100	**4,000,100**

108 Ordinary shares @ R1 each.

3. LOANS TO/FROM GROUP COMPANIES

SUBSIDIARIES

	2008 R	2007 R
Ekurhuleni Development Companny	(179,784)	64,149
Pharoe Park Housing Company	819,210	579,628
Lethabong Housing Institute	(91,634)	-
	547,792	**643,777**

AMOUNTS OWING BY(TO) RELATED COMPANIES

Inter company loans are interest free with no fixed repayment terms

	2008 R	2007 R
Current assets	819,210	643,777
Current liabilities	(271,418)	-
	547,792	**643,777**

4. LOANS FROM SHAREHOLDERS

	2008 R	2007 R
Gauteng Partnership Fund (GPF) The loan from GPF is interest free and repayable by equal instalments of R700000 annually from the1st of February 2011. The loan was received in February 2005 when GPF acquired 7.5% shareholding of the company.	(2,011,593)	(1,796,065)

4.1. GAUTENG PARTNERSHIP FUND (GPF)

	2008 R	2007 R
NOTIONAL LOANS MOVEMENT FOR THE YEAR		
Loan at nominal amount	(1,796,065)	(1,869,561)
(Less) Gain on receipt of interest free loan	(215,528)	73,496
Balance at end of year	**(2,011,593)**	**(1,796,065)**

5. LONG-TERM LIABILITIES

	2008 R	2007 R
Secured Loan - NHFC @ prime less 1% interest The loan from National Housing Finance Corporation is secured by a first continuous covering mortage bond over the consolidated property and is repayable in 186 equal instalments. Interest on the loan was charged at 14% until January 2005 and then negotiated to prime less 1% from February 2005.	21,346,445	22,895,337

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R
5. LONG-TERM LIABILITIES (continued)			
CURRENT PORTION OF LONG TERM LIABILITIES			
Current portion of NHFC Loan		1,497,118	1,608,742
Terms and conditions			
NON-CURRENT LIABILITIES			
National Housing Funding Corporation		19,849,327	21,286,595
CURRENT LIABILITIES			
National Housing Funding Corporation		1,497,118	1,608,742
		21,346,445	**22,895,337**

6. TRADE AND OTHER PAYABLES

		2008 R	2007 R
Trade payables		139,463	133,344
Payments received in advance		204,931	273,462
Sundry Creditors		34,098	-
Unallocated Receipts		9,819	75,689
Related party creditor	18	371,821	270,886
Total Creditors		**760,132**	**753,381**

7. DEFERRED INCOME

DEFERRED INCOME COMPRISES:

	2008 R	2007 R
Non-monetary Government Grants	1,382,520	1,416,240

MOVEMENT DURING THE YEAR:

	2008 R	2007 R
Balance at the beginning of the year	1,416,240	1,449,960
Income recognition during the year	(33,720)	(33,720)
Balance at the end of the year	**1,382,520**	**1,416,240**

Deferred income resulted from land donated to Phase II by Ekurhuleni Metropolitan Municipality and is recognised as revenue over the useful life of the investment property.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2008 R	2007 R
Bank balances	576,180	142,361
Call investment deposits	3,000,000	3,700,000
	3,576,180	**3,842,361**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008	2007
	R	R

9. INVESTMENT PROPERTY

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	30,756,639	(4,360,597)	26,396,042	30,756,639	(3,779,184)	26,977,455

RECONCILIATION OF INVESTMENT PROPERTY - 2008

	Opening Balance	Depreciation	Total
Investment property	26,977,455	(581,413)	26,396,042

RECONCILIATION OF INVESTMENT PROPERTY - 2007

	Opening Balance	Accumulated Depreciation	Total
Investment property	30,756,639	(3,779,184)	26,977,455

PLEDGED AS SECURITY

The loan from NHFC is secured by a first continuous covering mortageover the consolidated property of Airport Park and Delville Flats

DETAILS OF PROPERTY

The property comprises of:
- ERF 59,61and 62 Airport Park Extension 2 Township registration division I.R measuring 1.3394, 1,1486 and 1.5477 hectares respectively
- and ERF 905, 906, 907 and 908 Dellville Extension 3 Township measuring 4.708, 4.212, 4.400 and 2.007 hectares respectively.

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

Fair value of investment property amounting toR68 300 000(R65 800 000 June 07) was determined as at year end 30 June 2007 by an independent sworn property appraiser based on most recent prices achieved in arms length transactions of similar properties in the area.

As at 30 June 2008 the fair value adjustment was determined by the House Price Index of ABSA at 3.8 % as per fair value policy of the company which states that a Independant valuation has to be done every 3 years there after an adjustment can be done in terms of a published house prices index from one of the Financial Institutions eg. ABSA

Investment property at cost	
Land	R 1 686 000
Buildings	R 29 070 639
Total	**R 30 756 639**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2008 R	2007 R

10. TRADE AND OTHER RECEIVABLES

		2008 R	2007 R
Trade debtors	10.1	285,743	568,978
Interest receivable		36,362	1,391
		322,105	**570,369**

10.1. TRADE DEBTORS

	2008 R	2007 R
Gross trade receivables	1,236,872	1,680,595
Less Provision for bad debts	(951,129)	(1,111,617)
	-	-
	285,743	**568,978**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

11. REVENUE

Rental facilities and equipment		8,517,257	8,068,924

12. OTHER INCOME

Recoveries		463,961	299,416
Sundry revenue		140,577	6,102
Deferred income on asset-based Government grants recognised during the year		33,720	33,720
Gain on receipt of shareholders loan carried at amortised cost		-	73,496
		638,258	**412,734**

13. AUDITORS' REMUNERATION

Fees		239,103	213,095

14. FINANCE COSTS

Interest paid on long term loans		2,412,244	2,538,433
Amortisation of held to maturity liabilities		215,528	-
Interest paid on deposits held		14,318	19,235
		2,642,090	**2,557,668**

15. OPERATING EXPENSES

Administration and management fees		2,216,667	1,931,517
Auditors remuneration	13	239,103	213,095
Bad debts	16	265,338	447,201
Bank charges		93,704	79,055
Cleaning		223,353	209,722
Conferences and seminars		-	1,480
Consulting fees		36,518	-
Legal & Debt collection		88,620	94,593
Depreciation		581,413	581,413
Insurance		371,731	74,610
Levies		-	1,029
Magazines, books and periodicals		-	1,800
Pest control		38,524	42,597
Printing and stationery		-	848
Repairs and maintenance		481,387	585,840
Security (Guarding of municipal property)		797,670	781,590
Management Fees - VAT Paid		310,333	-
Telecommunication costs (Telephone and fax)		-	1,069
Utilities		1,134,237	1,121,248
		6,878,598	**6,168,707**

16. BAD DEBTS

Contributions to bad-debt provision		265,338	447,201

Notes to the Annual Financial Statements

	2008 R	2007 R

17. CASH GENERATED FROM OPERATIONS

	2008 R	2007 R
Surplus before taxation	33,979	24,330
ADJUSTMENTS FOR:		
Depreciation and amortisation	581,413	581,413
Gain on interest free loan from shareholders	-	(73,496)
Interest received	(399,152)	(269,047)
Finance costs	2,642,090	2,557,668
CHANGES IN WORKING CAPITAL:		
Trade and other receivables	248,264	116,580
Trade and other payables	6,751	469,788
Deferred income	(33,720)	(33,720)
	3,079,625	**3,373,516**

18. RELATED PARTIES

Relationships	
Parent	Ekurhuleni Metropolitan Municipality
Other members of the group	Ekurhuleni Development Company
	Pharoe Park Housing Company
	Lethabong Housing Institute

RELATED PARTY BALANCES

	2008 R	2007 R
LOAN ACCOUNTS - OWING (TO) BY RELATED PARTIES		
Ekurhuleni Development Company	(179,784)	64,149
Pharoe park Housing Company	819,210	579,628
Lethabong Housing Institute	(91,634)	-
AMOUNTS INCLUDED IN TRADE RECEIVABLE (TRADE PAYABLE) REGARDING RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	371,821	270,886

RELATED PARTY TRANSACTIONS

	2008 R	2007 R
PURCHASES FROM RELATED PARTIES		
Ekurhuleni Metropolitan Municipality	1,134,237	1,121,248
ADMINISTRATION FEES PAID TO (RECEIVED FROM) RELATED PARTIES		
Ekurhuleni Development Company	2,216,667	1,931,517

Notes to the Annual Financial Statements

	2008 R	2007 R

19. PRIOR YEAR ERRORS

During the year ended 30 June 2006, improvements to land were erroneously expensed as repairs and maintenance:

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

	2008 R	2007 R
STATEMENT OF FINANCIAL POSITION		
Trade and other receivables	-	33,720
STATEMENT OF FINANCIAL PERFORMANCE		
Retained Income	-	(33,720)

20. RISK MANAGEMENT

LIQUIDITY RISK

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

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

CREDIT RISK

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

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

21. GOING CONCERN

Ekurhuleni Metropolitan Municipality together with Gauteng Partnership Fund commissioned a due dilligence report on the sustainability of the company. The company is experiencing cash flow challenges on a monthly basis. Several factors contribute to the viability and ultimately the going concern of the company, therefore a long term sustainability strategy is being prepared for the company. The company is however dependant on continued support form the shareholders in order to remain a going concern.

22. TAX COMPUTATION

	2008 R	2007 R
TAX RECONCILIATION		
Assessed tax loss at the start of the period	(5,332,101)	(5,322,168)
Tax loss for the period	(315,827)	(9,933)
Provision for tax	9,853	7,055
	(5,638,075)	**(5,325,046)**

The company are having an assessed loss. The provision for tax on the surplus was nett off against the assessed loss.

GERMISTON PHASE II HOUSING COMPANY PTY (LTD)
APPENDIX E(1) for the ended Monday, 30 June, 2008
July 2007

GOVERNMENT TEMPLATE: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006

	Current year 2008 Act. Bal. Rand	Current year 2008 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rental facilities and equipment	8,517,257	8,955,670	(438,413)	-	Over budgeted
	8,517,257	8,955,670	(438,413)	-	
Other income					
Other income	638,257	372,400	265,857	-	Recoveries improved
Interest received - investment	399,152	112,000	287,152	-	Cash Investments gained higher interest than expected
	1,037,409	484,400	553,009	-	
Total Revenue	9,554,666	9,440,070	114,596	-	
Expenses					
Bad debts	(265,338)	(267,340)	2,002	-	
Depreciation - N/A	(581,413)	(800,004)	218,591	-	Over budgeted
Repairs and maintenance	(481,387)	(486,500)	5,113	-	
Finance costs	(2,642,089)	(2,426,682)	(215,407)	-	Under budgeted Interest rate increased by 3% per annum
General expenses	(5,526,899)	(4,897,401)	(629,498)	-	Management fees under budgeted.
	(9,497,126)	(8,877,927)	(619,199)	-	
Operating profit	57,540	562,143	(504,603)	-	
Other revenue and costs					
Net surplus/ (deficit) for the year	57,540	562,143	(504,603)	-	

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE ANNUAL FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE GERMISTON PHASE II HOUSING COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying annual financial statements of the Germiston Phase II Housing Company (Pty) Ltd which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the director's report, as set out on pages x to x.

Responsibility of the accounting authority for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). This responsibility includes:

   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Germiston Phase II Housing Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Opinion

10. In my opinion, the financial statements present fairly, in all material respects, the financial position of Germiston Phase II Housing Company (Pty) Ltd as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and the Companies Act, 1973.

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

Going concern

11. As disclosed in Note 21 to the financial statement, the company's inability to collect rental income from its debtors had a negative impact on the company's cash flow and its ability to fund operating costs. This casts doubt over the ability of the company to continue as a going concern.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matters of governance

12. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the

implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines, in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for the consideration prior the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.	X	

Unaudited supplementary schedule

13. The detailed statement of financial performance included as supplementary information set out on pages x to x and the budget information do not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion of it.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

14. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

15. In terms of section 121(4)(d) of the MFMA, the annual report of a municipality entity must include an assessment by the entity's accounting officer of the entity's performance

against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

16. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

17. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

19. The performance information was not submitted timeously for audit purposes. The company's internal monitoring systems and processes did not accommodate the timeous compilation of the information.

APPRECIATION

20. The assistance rendered by the staff of the Germiston Phase II Housing Company (Pty) Ltd during the audit is sincerely appreciated.

Auditor-General

Johannesburg

30 November 2008

AUDITOR-GENERAL

ANNEXURE “E”

LETHABONG HOUSING INSTITUTE

(REGISTRATION NUMBER 2000/005573/08)
TRADING AS LETHABONG HOUSING INSTITUTE
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

DIRECTORS' RESPONSIBILITIES AND APPROVAL

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 21, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973 and which I have signed on behalf of the Company.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The disclosure requirements as per GRAP 1,2 and 3 have also been incorporated in the financial statements.

Director

Friday, 29 August, 2008

Certificate by Company Secretary for the year ended June 30, 2008

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

ME von Ronge
Of: LETHABONG HOUSING INSTITUTE
Company Secretary
Friday, 29 August, 2008

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Housing Institute registered in terms of Section 21 of the Companies Act . The main purpose is to provide affordable housing. Vacant land is acquired, services installed and homes erected and sold.
DIRECTORS	Daphney Ngoasheng Sipho Mlungisi Twala Michael Mokela Mokgohloa Simon Pieter Gerber Clive Peter Ucko Kara Nazir Ahmed
BUSINESS ADDRESS	Shop no 9 Pharoe Park Cnr Jack & Queen street Germiston 1400
POSTAL ADDRESS	P O Box 1245 Germiston 1400
PARENT	Ekurhuleni Metropolitan Municipality incorporated in South Africa
BANKERS	First National Bank
AUDITORS	Kwinana and Associates (Gauteng) incorporated (on behalf of the Auditor General) Registered Auditors
SECRETARY	ME von Ronge
COMPANY REGISTRATION NUMBER	2000/005573/08

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

CONTENTS

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

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

DIRECTOR'S REPORT

1. INCORPORATION

The company was incorporated on13 March 2000 and obtained its certificate to commence business on the same day.

2. GOING CONCERN

The Lethabong Housing Institute on the year end of June 30, 2008, showed deficit of R 3 687 404 and the company's total assets exceeded the liabilities by R17,279,849.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the company has resources in place to continue in operation for the foreseeable future.

The existence of the company is dependant on the continued support of its sole shareholder, Ekurhuleni Metropolitan Municipality. Furthermore the company is dependant on the successfull development of land donated by Ekurhuleni Metropolitan Municipality to remain profitable and sustainable.

3. INTERNAL CONTROLS

3.1. GRANT INCOME

Originally the Association obtained a donation from an agency of the Chinese Government for the erection of 664 dwellings on land acquired and developed by this association.
The acquisition of land was financed by the then Edenvale Metropolitan Council.

LHI is in the process of developing 10 affordable housing units in Bedfordview in a joint venture to ensure that surplus realised are reinvested in social housing projects.

Stanford Gardens Phase III will be developed in the 2008- 2009 financial year and similarly profit realised will be reinvested in social housing projects.

3.2. VAT

LETHABONG HOUSING INSTITUTE is registered with the South African Revenue Services (SARS) for Value Added Tax.

3.3. FINANCES

During July 2007 the finance function was handed over from Alec Chesler & Co who formerly was responsible for compiling Financial reports and annual financial statements. The finances are now managed and controlled from the Germiston premises of Ekurhuleni Development Company and are the responsibility of the Chief Executive officer and the Finance Manager employed by the board.

4. POST STATEMENT OF FINANCIAL POSITION EVENTS

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

DIRECTOR'S REPORT

5. ACCOUNTING POLICIES

The International Financial Reporting Standards were not applied. Generally Accepted Accounting Practice, together with the South African Generally Recognised Accounting Practice 1, 2 and 3 were applied, in consistency with prior year.

The Company has prepared its annual financial statements in terms of Standards of Generally Accepted Accounting Practice, except where these have been superseded by the 3 Standards of Generally Recognised Accounting Practice.

There were no changes in accounting policies during the year.

6. DIRECTORS

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

Name	Nationality
Daphney Ngoasheng	
Sipho Mlungisi Twala	SA Citizen
Michael Mokela Mokgohloa	SA Citizen
Simon Pieter Gerber	SA Citizen
Clive Peter Ucko	SA Citizen
Kara Nazir Ahmed	SA Citizen

7. SECRETARY

Michael Mokgohloa resigned as acting secretary of the company on Friday, 27 July, 2007 and ME von Ronge was appointed in his stead on the same day .

Business address	
	No 9 Jack Street Pharoe Park Germiston 1400
Postal address	
	PO Box 1245 Germiston 1400

8. PARENT

The company's parent is Ekurhuleni Metropolitan Municipality

9. BANKERS

First National Bank.

10. AUDITORS

In accordance with Section 92 of the Municipal Finance Management Act No 56 of 2003, Kwinana and Associates (Gauteng) incorporated (on behalf of the Auditor General) will continue as the Company's external auditors

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2008

	Note(s)	2008 R	2007 R
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO HOLDERS OF THE PARENT			
Accumulated Surplus (Deficit)		17,279,849	20,967,253
		17,279,849	**20,967,253**
LIABILITIES			
CURRENT LIABILITIES			
Amount owing to related companies	3	-	465,081
Trade and other payables	8	298,502	169,119
Provisions	7	284,075	382,083
		582,577	**1,016,283**
Total Net Assets and Liabilities		**17,862,426**	**21,983,536**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	1	1
CURRENT ASSETS			
Inventories	4	14,194,755	13,625,409
Amounts owing by related companies	3	2,812,450	-
Trade and other receivables	5	204,926	2,273,631
Cash and cash equivalents	6	650,292	6,084,495
		17,862,423	**21,983,535**
Total Assets		**17,862,424**	**21,983,536**

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note(s)	2008 R	2007 R
Revenue	9	-	186,140
Cost of sales	10	-	(51,516)
Gross surplus		**-**	**134,624**
Operating expenses		(3,916,020)	(1,561,521)
Operating loss		**(3,916,020)**	**(1,426,897)**
Investment revenue		228,616	462,968
Finance costs	11	-	(581)
Loss for the year		**(3,687,404)**	**(964,510)**

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R
Revenue			
Sale of goods		-	186,140
Cost of sales			
Opening stock		(13,625,409)	-
Purchases		(569,346)	(13,676,925)
Closing stock		14,194,755	13,625,409
	10	**-**	**(51,516)**
Gross surplus		**-**	**134,624**
Other income			
Interest received		228,616	462,968
Expenses (Refer to page 10)		**(3,916,020)**	**(1,561,521)**
Operating deficit		**(3,687,404)**	**(963,929)**
Finance costs	11	-	(581)
Deficit for the period		**(3,687,404)**	**(964,510)**

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2008 R	2007 R
Operating expenses			
Assessment rates & municipal charges		24,980	-
Auditors remuneration	12	281,727	344,676
Bad debts		2,239,136	-
Bank charges		2,726	5,116
Cleaning		1,208	-
Consulting and professional fees 1		112,033	45,970
Employee costs		16,000	275,914
Entertainment		-	3,717
Expense 4		1,118,560	881,650
Insurance		1,327	3,671
Legal expenses		81,528	-
Printing and stationery		3,030	807
Repairs and maintenance		27,926	-
Telephone and fax		725	-
Training		5,114	-
		3,916,020	**1,561,521**

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

STATEMENT OF CHANGES IN NET ASSET

	Note(s)	Share capital R	Accumulated Surplus (Deficit) R	Net Assets R
Opening balance as previously reported		-	21,951,090	21,951,090
Adjustments				
Prior year adjustments	17		(107,781)	(107,781)
Balance at July 1, 2006 as restated		**-**	**21,843,309**	**21,843,309**
Changes in net assets				
Net income (expenses) recognised directly in equity		-	-	-
Deficit for the year			(964,510)	(964,510)
Total recognised income and expenses for the year		-	(964,510)	(964,510)
Prior year adjustments			88,454	88,454
Total changes		-	(876,056)	(876,056)
Balance at July 1, 2007		**-**	**20,967,253**	**20,967,253**
Changes in net assets				
Deficit for the year			(3,687,404)	(3,687,404)
Total changes		-	(3,687,404)	(3,687,404)
Balance at June 30, 2008		**-**	**17,279,849**	**17,279,849**

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

CASH FLOW STATEMENT

	Note(s)	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		228,616	585,920
Cash paid to suppliers and employees		(2,613,902)	(7,165,689)
Cash used in operations	13	(2,385,286)	(6,579,772)
Interest income		228,616	462,968
Finance costs		-	(581)
Net cash from operating activities		**(2,156,670)**	**(6,117,385)**
CASH FLOWS UTILISED IN INVESTING ACTIVITIES			
Loans advanced to related companies		(3,277,531)	465,081
Net increse(decrease) in cash and cash equivalents		**(5,434,202)**	**(5,732,300)**
Cash and cash equivalents at the beginning of period		6,084,494	11,816,795
Cash and cash equivalents at end of the period	6	**650,292**	**6,084,495**

ACCOUNTING POLICIES

1. Basis of preparation

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice(GAAP) including any interpretations such Statements issued by the Accounting Practice Board, with the prescribed Standard of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP	
GRAP1:	Presentation of financial statements	AC 101:	Presentation of financial statements
GRAP2:	Cash flow statements	AC 118:	Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103:	Accounting policies, changes in accounting estimates and errors

Currently the recognision and measurement principles in the above GRAP & GAAP statements do not differ or resulted in material difference in items presented and disclosed in the financial statements. The implementation of GRAP 1,2 and 3 has resulted in the following changes in the presentation of the financial statements:

1.1. Terminology differences:

Standard of GRAP	Replacement Statement of GAAP
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net Assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained Earnings
Contributions from Owners	Share Capital
Distributions to Owners	Dividends

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. Specific information has been presented seperately on the Statement of Financial Position, such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions.

1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

These accounting policies are consistent with the previous year.

1.1 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

1.2 GOING CONCERN ASSUMPTION

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

ACCOUNTING POLICIES

1.3 OWNERS CONTRIBUTIONS AND NET ASSETS

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.4 FINANCIAL INSTRUMENTS

INITIAL RECOGNITION

Recognition
The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Measurement
Financial Instruments are initially measured at cost, which includes transaction costs.

Subsequent recognition
Subsequent to initial recognition these instruments are measured as set out below

FAIR VALUE DETERMINATION

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the annual financial statements establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

AMOUNTS OWING BY (TO) RELATED COMPANIES

These include loans to holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to (from) group companies are classified as loans and receivables.

ACCOUNTING POLICIES

1.4 FINANCIAL INSTRUMENTS (continued)

TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within annual financial statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against company in the income statement.

Trade and other receivables are classified as loans and receivables.

Debtors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 INVENTORIES

Inventories are measured at the lower of cost and net realisable value.

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

1.6 PROVISIONS

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to the company.

ACCOUNTING POLICIES

1.7 REVENUE

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

1.7.1 REVENUE FROM EXCHANGE TRANSACTIONS

Interest are recognised on a time proportion basis.

1.8 TAX

CURRENT TAX ASSETS AND LIABILITIES

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

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 reporting date.

DEFERRED INCOME TAX

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method.

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 reporting date.

Deferred tax assets and liabilites are offset when there is a legally enforceable right to set off current tax against current tax liabilities annd when they relate to income taxes levied by the same tax authority and the company intends to settle its current tax assets and liabilities on a net basis.

A deferred tax liability is recognised for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the deductable temporary difference can be utilised, unless the deferred tax asset arises from the initial recognison of an asset or liability in a transaction that:
a) is not a business combination; and
b) at the time of the transaction, affects neither accounting profit 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 profit will be available against which the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
a) the initial recognition of goodwill; or
b) goodwill for which amortisation is not deductible for tax purposes; or
c) the initial recognition of an asset or liability in a transaction which:
   - is not a business combination; and
   - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

TAXATION

ACCOUNTING POLICIES

1.8 TAX (continued)

Income Tax expense represents the sum of current and deferred tax.

Current and deferred taxes are recognised as income of an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
a) a transaction or event which is recognised, in the same or different period, directly in net assets, or
b) a business combination.

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

1.9 UNAUTHORISED EXPENDITURE

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

1.10 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

1.11 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. If the expenditure is not condoned by the relevant authority it is accounted for as a current asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

1.12 COMPARATIVES INFORMATION

Compararive figures are provided

1.12.1 CURRENT YEAR COMPARATIVES

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.12.2 PRIOR YEAR COMPARATIVES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

2. Property, plant and equipment

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	10,901	(10,900)	1	10,901	(10,900)	1

3. Amounts owing by(to) related companies

Subsidiaries

	2008 R	2007 R
Ekurhuleni Development Company	2,620,816	(465,081)
Pharoe Park Housing Company	100,000	-
Germiston Phase II Housing Company	91,634	-
	2,812,450	**(465,081)**

Inter company loans are interest free with no fixed repayment terms

	2008 R	2007 R
Current assets	2,812,450	-
Current liabilities	-	(465,081)
	2,812,450	**(465,081)**

4. Inventories

	2008 R	2007 R
Inventories Bedfordview Stanford Gardens	8,404,475	8,277,597
Inventories Bedfordview Tennis Court	5,790,280	5,347,812
	14,194,755	**13,625,409**

5. Trade and other receivables

	2008 R	2007 R
VAT	204,926	2,239,136
Sundry debtor	-	34,495
	204,926	**2,273,631**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2008 R	2007 R
Bank balances	150,292	4,601,982
Call investment deposits	500,000	1,482,513
	650,292	**6,084,495**

LETHABONG HOUSING INSTITUTE

(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

7. Provisions

Reconciliation of provisions - 2008

	Opening Balance	Utilised during the year	Total
Other Provisions	382,083	(98,008)	284,075

Reconciliation of provisions - 2007

	Opening Balance	Utilised during the year	Total
Other Provisions	950,238	(568,155)	382,083

The provision for defects represents management's best estimate of the company's liability for Stanford Gardens.

An estimate was prepared by an Engineer to provide LHI with a evidence on what repairs must be done at Stanford Gardens. A R40 000 difference between the estimate and the total provision are kept in provisions as the estimate was a quote and the project has to be put out on tender.

8. Trade and other payables

	2008 R	2007 R
Trade payables	298,502	169,119

9. Revenue

	2008 R	2007 R
Sale of goods	-	186,140

10. Cost of sales

	2008 R	2007 R
Sale of goods		
Cost of goods sold	-	51,516

11. Finance costs

	2008 R	2007 R
Current borrowings	-	518
Late payment of tax	-	63
	-	**581**

12. Auditors' remuneration

	2008 R	2007 R
Fees	281,727	344,676

13. Cash used in operations

	2008 R	2007 R
Deficit before taxation	(3,687,404)	(964,510)
Adjustments for:		
Interest received	(228,616)	(462,968)
Finance costs	-	581
Movements in provisions	(98,008)	382,083
Changes in working capital:		
Inventories	(569,346)	(3,430,446)
Trade and other receivables	2,068,705	(2,273,631)

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R

13. Cash used in operations (continued)

Trade and other payables	129,383	169,119
	(2,385,286)	**(6,579,772)**

14. Contingencies

No taxation has been provided for. Application has been made to the Commissioner of Inland Revenue for the company to be classified as a public benefit organisation with an exempt tax status. THis has been received at the date of these statements. Until this is received, there is a contingent liability for taxation of approximately R7 707 257 as on 30 April 2008 (R6 532 488 2007) plus interest to date of payment .

15. Related parties

Relationships	
Holding company	Ekurhuleni Metropolitan Municipality
Subsidiaries	Ekurhuleni Development Company
	Pharoe Park Housing Company
	Germiston Phase II Housing Company
Shareholder with significant influence	Ekurhuleni Metropolitan Municpality

Related party balances

Loan accounts - Owing (to) by related parties		
Ekurhuleni Development Company	2,620,816	(465,081)
Pharoe Park Housing Company	100,000	-
Germiston Phase II Housing Company	91,634	-

Related party transactions

Municipal Services & Rates and Taxes charged by related parties		
Ekurhuleni Metropolitan Municipality	488,353	44,870
Management fees paid to related parties		
Ekurhuleni Development Company	1,115,667	881,650

16. Directors' emoluments

Non executive directors are paid a sitting allowance per meeting attended.

Non-executive

2008	Emoluments	Total
For services as directors	16,000	16,000

2007	Emoluments	Total
For services as directors	10,985	10,985

17. Prior period errors

Prior year balances of Receiveables and payables could not be verified and was written off.
The treatment of Audit fees was changed to reflect the current year's spending instead of a provision for fees relating to the prior year.

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

LETHABONG HOUSING INSTITUTE
(Registration number 2000/005573/08)
Trading as Lethabong Housing Institute
Annual Financial Statements for the year ended June 30, 2008

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2008 R	2007 R
17. Prior period errors (continued)		
Balance sheet		
Trade and other payables	-	(46,005)
Accruals	-	136,301
Other 3	-	(178,750)
Income statement		
Prior year income	-	(136,301)
Audit Fees	-	178,750
Prior year expense	-	46,005

18. Risk management

Liquidity risk

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

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Credit guarantee insurance is purchased when deemed appriopriate.

19. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

LETHABONG HOUSING INSTITUTE

Appendix E(1)

	ACTUAL 2007/2008	BUDGET 2007/2008	Variance	% Variance
	R	R		R
INCOME				
Proceeds from sale of property				
Interest Received	228,616	450,000	**-221,384**	-49.20%
Sundries		279,360	**-279,360**	-100.00%
OPERATING INCOME GENERATED	**228,616**	**729,360**	**(500,744)**	-68.66%
Less: Income foregone				
TOTAL OPERATING INCOME	**228,616**	**729,360**	**(500,744)**	-68.66%
Internal Transfers - sub-total		-		
NET OPERATING INCOME	**228,616**	**729,360**	**(500,744)**	-68.66%
EXPENDITURE				
Remuneration of Directors	16,000	218,900	-202,900	-92.69%
Repairs and Maintenance - External cost	27,926	28,500	-574	-2.01%
General Expenses - Other	1,609,399	1,852,900	-243,501	-13.14%
TOTAL OPERATING EXPENDITURE	1,653,325	2,100,300	(446,975)	-21.28%
NET OPERATING EXPENDITURE	**1,653,325**	**2,100,300**	**(446,975)**	-21.28%
OPERATING SURPLUS/(DEFICIT)	**(1,424,709)**	**(1,370,940)**	**(53,769)**	3.92%
NET OPERATING SURPLUS/ (DEFICIT)	**(1,424,709)**	**(1,370,940)**	**(53,769)**	3.92%

LETHABONG HOUSING INSTITUTE

Year End: 30 June, 2008

Account	Prelim	Adj's	Reclass	RepAnnotation	Rep 06/07	%Chg	L/S
043 Interest received	(228,616.14)	0.00	0.00	**(228,616.14)**	(462,968.00)	**(51)**	61.30.20
080 Sales	0.00	0.00	0.00	**0.00**	(186,140.00)	**(100)**	60.30.10.000
100 Audit & Accounting	281,727.10	0.00	0.00	**281,727.10**	344,676.00	**(18)**	66.30.00.000
101 Cleaning	1,208.16	0.00	0.00	**1,208.16**	0.00	**0**	66.30.00.000
102 Consultancy fee	112,032.84	0.00	0.00	**112,032.84**	45,970.00	**144**	66.30.00.000
103 Insurance	1,327.16	0.00	0.00	**1,327.16**	3,671.00	**(64)**	66.30.00.000
105 Directors fees	16,000.02	0.00	0.00	**16,000.02**	275,914.00	**(94)**	65.30.10.000
121 Provision for Bad Debts	0.00	2,239,135.81	0.00	**2,239,135.81**	0.00	**0**	66.30.00.000
123 Bank Charges on Cash	2,726.46	0.00	0.00	**2,726.46**	5,116.00	**(47)**	66.30.00.000
124 Municipal Service Account	24,980.36	0.00	0.00	**24,980.36**	0.00	**0**	
129 Legal Expenses	81,528.16	0.00	0.00	**81,528.16**	0.00	**0**	66.30.00.000
141 R&M - General Maintenance	27,400.00	0.00	0.00	**27,400.00**	0.00	**0**	66.30.00.000
144 R&M - Plumbing	526.32	0.00	0.00	**526.32**	0.00	**0**	66.30.00.000
151 Interest & Penalties	0.00	0.00	0.00	**0.00**	63.00	**(100)**	67.30
155 Interest on Loans	0.00	0.00	0.00	**0.00**	518.00	**(100)**	67.30
171 Office Consumables	0.00	0.00	0.00	**0.00**	3,717.00	**(100)**	66.30.00.000
174 Training - Staff	5,113.51	0.00	0.00	**5,113.51**	0.00	**0**	66.30.00.000
181 Telephone & Fax	724.62	0.00	0.00	**724.62**	0.00	**0**	66.30.00.000
183 Stationery & Printing	3,030.37	0.00	0.00	**3,030.37**	807.00	**276**	66.30.00.000
202 Management fees paid	1,095,000.00	20,666.67	0.00	**1,115,666.67**	881,650.00	**27**	66.30.00.000
203 Management fees VAT paid	0.00	2,893.33	0.00	**2,893.33**	0.00	**0**	66.30.00.000
250 Cost of Sales	0.00	0.00	0.00	**0.00**	51,516.00	**(100)**	62.30.10.000
520 Retained Income	(20,967,251.98)	0.00	0.00	**(20,967,251.98)**	(21,843,309.00)	**(4)**	40.24
550 Inventory - Bedfordview S	8,404,474.65	0.00	0.00	**8,404,474.65**	8,277,597.03	**2**	30.20.10.007
551 Inventory-Bedfordview Ten	5,790,280.23	0.00	0.00	**5,790,280.23**	5,347,811.73	**8**	30.20.10.008
670 Office Equipment - Cost	10,901.00	0.00	0.00	**10,901.00**	10,901.00	**0**	20.20.10.001
675 Office Equipment - A/Dep	(10,900.00)	0.00	0.00	**(10,900.00)**	(10,900.00)	**0**	20.20.10.005
800 Bank	150,291.60	0.00	0.00	**150,291.60**	4,601,981.55	**(97)**	32.20.15.002
805 Call Account	500,000.00	0.00	0.00	**500,000.00**	1,482,512.52	**(66)**	32.20.15.003
811 Provision for Bad Debt	0.00	(2,239,135.81)	0.00	**(2,239,135.81)**	0.00	**0**	31.20.10.005
814 Other Debtors	0.00	0.00	0.00	**0.00**	34,495.00	**(100)**	31.20.10.009
822 Other Provisions	(284,074.97)	0.00	0.00	**(284,074.97)**	(382,083.00)	**(26)**	52.20.25.009
828 Other Creditors	(298,501.55)	0.00	0.00	**(298,501.55)**	(169,119.00)	**77**	51.20.00.001
850 VAT Control	2,446,955.37	(2,893.33)	0.00	**2,444,062.04**	2,239,135.81	**9**	31.20.10.005
912 Intercompany - P/Park	100,000.00	0.00	0.00	**100,000.00**	0.00	**0**	24.26.15.001
914 Intercompany - Management	2,641,483.02	(20,666.67)	0.00	**2,620,816.35**	(465,080.85)	**(664)**	24.26.15.001
915 Intercompany - Phase II	91,633.69	0.00	0.00	**91,633.69**	0.00	**0**	24.26.15.001
	0.00	**0.00**	**0.00**	**0.00**	**88,452.79**	**(100)**	
Net Income (Loss)	**(1,424,708.94)**			**(3,687,404.75)**	**(964,510.00)**	**282**	

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE LETHABONG HOUSING INSTITUTE (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Lethabong Housing Institute (Pty) Ltd. which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages x to x.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
    - appropriateness of accounting policies used
    - reasonableness of accounting estimates made by management
    - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Lethabong Housing Institute (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Basis for qualified opinion

Provision for defects

10. The valuation and completeness of the provision, amounting to R284 075 for defects was not confirmed. The amount determined by management was not adequately supported by the basis and assumptions necessary to determine the estimate. No alternative audit procedures could be performed and therefore the amount of the misstatement could not be quantified.

Qualified opinion

11. In my opinion except for the effect of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Lethabong Housing Institute (Pty) Ltd as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and the Companies Act, 1973.

Emphasis of matter

I draw attention to the following matter:

Contingent liability

12. As disclosed in note 14 to the financial statements, Lethabong Housing Institute (Pty) Ltd made an application to SARS to be exempted from tax. The process was not yet finalised. The contingent liability amounting to R7 707 257 (2007: R6 532 488) was disclosed.

OTHER MATTERS

I also draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Internal controls

13. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorized according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Provision for defects			X		X

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Matters of governance

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	

Matters of governance	Yes	No
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.	X	

Unaudited supplementary schedules

15. The detailed statement of financial performance included as supplementary information set out on pages x to x and the budget information do not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion on it.

OTHER REPORTING RESPONSIBILITIES

REPORTING ON PERFORMANCE INFORMATION

Responsibilities of the accounting officer for the performance information

16. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit finding reporting below.

Audit finding (performance information)

20. The information was not submitted timeously for audit purposes. The company's internal monitoring systems and processes did not accommodate the timeous compilation of the information.

APPRECIATION

21. The assistance rendered by the staff of the Lethabong Housing Institute (Pty) Ltd. during the audit is sincerely appreciated.

Auditor-General

Johannesburg

30 November 2008

AUDITOR-GENERAL

ANNEXURE “F”

BRAKPAN BUS COMPANY (PROPRIETARY) LIMITED
(Registration number 2000/024331/07)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Brakpan Bus Company (Proprietary) Limited
(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

General Information

Country of incorporation and domicile South Africa

Nature of business and principal activities Providing a public bus service to the communities of Brakpan, Springs & Tsakane and also the hiring out of its buses to individuals and organisations.

Directors

P.F Radebe (Chairperson)-Resigned Nov 2007
G.C Prinsloo (Prof)
M. Whitehead)-Resigned Nov 2007
R.E. Matenche (Managing Director)
L.M. Sibeko (Cllr Observer))-Resigned Nov 2007
N. Dube (Cllr Observer))-Resigned Nov 2007

Registered office

1st Floor Block B Empire Park
55 Empire Road
Parktown
Johannesburg
2193

Business address

Cnr Lemmer/ Denne Road
Rand Colliers
Brakpan
1544

Postal address

P.O. Box 10298
Dalview
Brakpan
1544

Holding company

Ekurhuleni Metropolitan Municipality

Bankers ABSA Bank Limited

Auditors The Office of the Auditor General – Johannesburg.

Company registration number 2000/024331/07

Brakpan Bus Company (Proprietary) Limited

(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Index

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

Report of the Auditor General

To the shareholder of Brakpan Bus Company (Proprietary) Limited

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF BRAKPAN BUS COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2008

Introduction

1. I have audited the accompanying financial statements of Brakpan Bus Company (Pty) Ltd which comprise the statement of financial position as at 30 June 2008 statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages x to x.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by Brakpan Bus Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Brakpan Bus Company (Pty) Ltd as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and the Companies Act, 1973.

Emphasis of matters

Without qualifying my audit opinion, I draw attention to the following matters:

Going concern

11. As disclosed in note 19 to the financial statements, there is material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Government assistance

12. As disclosed in note 21 to the financial statements, the company received government assistance in the form of the use of the parent municipality's buses and depots at a cost that is significantly lower than the fair value.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

13. In terms of Section 111 of MFMA each municipal entity must implement a supply chain management policy. For the 2007/2008 financial year no supply chain management policy was in place at Brakpan Bus Company.

14. Contrary to the requirements of sections 95(c)(i), 96(2)(b), 97(i) and 99(2) (d) of the MFMA, formally documented policies and procedures regarding the management of assets, liabilities, revenue and expenditure management had not been implemented during the year.

Matters of governance

15. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipal entity had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipal entity had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.	X	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
• The prior year's external audit recommendations have been substantially implemented.		X

Unaudited supplementary schedules

16. The municipal entity provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements.* The supplementary budget information set out on pages x to x does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

17. I have reviewed the performance information as set out on pages x to x.

Responsibility of the accounting officer for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008.*
20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Measurable objectives not consistent

22. I draw attention to the fact that the measurable objectives reported in the annual report of Brakpan Bus Company are materially inconsistent when compared with the predetermined objectives as per the strategic plan.

The following table reflects the material differences:

Objective per strategic plan	Objective per annual report
To satisfy our existing passengers within our operational area with the current assets.	Employment of employees for permanent staff
To service all our routes with less breakdowns and late shifts.	To attract the number of lost passengers
To ensure that buses run at 80%occupancy	Learnership Programme
To increase the fleet of buses to 40 buses.	Smart cards sold at schools and industries
Expanding the bus services to the whole Eastern region of Ekurhuleni metropolitan Municipality.	To reduce the number of accidents
To be ready for the 2010 FIFA world Cup as a transport participant in the event.	To increase the number of passengers

Objectives reported in annual report, but not predetermined as per strategic plan and/or budget

23. I draw attention to the fact that the following objectives are reported in the annual report of Brakpan Bus Company, although there were not included as predetermined objectives in the strategic plan and/or budget:
    - Employment of employees for permanent staff
    - To attract the number of lost passengers
    - Learnership Programme
    - Smart cards sold at schools and industries
    - To reduce the number of accidents
    - To increase the number of passengers

Lack of sufficient appropriate audit evidence

24. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of Brakpan Bus Company, as the system used for generating information on actual performance against targets was not adequate for purposes of the evaluation.

APPRECIATION

25. The assistance rendered by the staff of the Brakpan Bus Company (Pty) Ltd during the audit is sincerely appreciated.

Auditor-General.

Johannesburg

30 November 2008

AUDITOR-GENERAL

Brakpan Bus Company (Proprietary) Limited

(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Directors' Responsibilities and Approval

We are responsible for the preparation of these financial statements, which are set out on pages 5 to 32 in terms of Section 126(1) of the Municipal Financial Management Act, Act 56 of 2003, and the Companies Act of South Africa of 1973 and which I have signed on behalf of the Company.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The disclosure requirements as per GRAP 1, 2 and 3 have also been incorporated in the financial statements.

The directors acknowledges that it is ultimately responsible for the system of internal financial control established by the Brakpan Bus Company to enable the directors to meet these responsibilities. These controls are mentioned throughout the Brakpan Bus Company in ensuring the Company's operations are conducted accordingly. The focus of the management in the Brakpan Bus Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Brakpan Bus Company endeavours to minimize it.

The directors are required by the Municipal Financial Management Act, Act 56 of 2003 and the Companies Act of South Africa, Act 61 of 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in the report. It is their responsibility to ensure that the annul financial.statements fairly present the state of affairs of the company as at the end of the financial year and the results of the operations and cash flow for the period then entered, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements

MANAGING DIRECTOR
R E MATENCHE

27 August 2008

Brakpan Bus Company (Proprietary) Limited

(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Directors' Report

The directors submit their report for the year ended 30 June 2008.

1. Review of activities

Main business and operations

The company is engaged in transporting passengers/workers and operates principally in Brakpan, Springs & Tsakane.

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

Net profit of the company was R 355,241 (2007: profit R 442,359), after taxation .

2. Post Statement of Financial Position events

The company has commenced negotiations with the Department of Transport for the continuation of the subsidy previously received. These negotiations were incomplete at the date of the signing of these financial statements

3. Directors' interest in contracts

Directors have no interest in any contract currently in place

4. Contribution from owners

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

5. Non-current assets

There have been no major changes in the nature of the non-current assets of the company during the year.

There have been no changes in the policy relating to the use of non-current assets.

6. Dividends

No dividends were declared or paid to shareholder during the year.

7. Directors

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

P.F. Radebe Chairperson – resigned November 2007
G.C. Prinsloo Director
M. Whitehead Director – resigned November 2007
R.E Matenche Managing Director
L.M. Sibeko Councillor Observer-EMM – resigned November 2007
N. Dube Councillor Observer – EMM – resigned November 2007

A new board has been appointed from July 2008 and registration with the Companies and intellectual property registration office (CIPRO) is currently in process

8. Secretary

The company secretary is Castfin Trust and Consulting Services CC.

9. Holding company

The company's shares are 100% held by Ekurhuleni Metropolitan Municipality, and the company remains a municipal entity.

10. Auditors

The Office of the Auditor General - Johannesburg assumed responsibility of the company audit in accordance with section 270(2) of the Companies Act, and in terms of the Municipal Finance Management Act, Act 56 of 2003 from the financial year ended 30 June 2007.

Corporate Governance Report

1. Introduction

Brakpan Bus Company (Proprietary) Limited ensures that its processes and practices are reviewed on an ongoing basis to ensure compliance with legal obligations, use of funds in an economic, efficient, and effective manner and adherence to good corporate governance practices. Processes and practices are characterised by reporting on economic, environmental and social responsibility. Such reporting is underpinned by the principles of openness, integrity and accountability and is an inclusive approach that recognises the importance of all stakeholders with respect to the viability and sustainability of Brakpan Bus Company (Proprietary) Limited.

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour beginning at the top level of the organisation. Corporate governance sets the tone for behaviour right down to the lowest levels.
Brakpan Bus Company (Proprietary) Limited complies with the requirements of the Companies Act, 1973.

2. Shareholding

Ekurhuleni Metropolitan Municipality is the sole shareholder of the company.

3. Governing body

3.1. Board of directors

3.1.1 Composition of the board

The names of the members of the board appear on page 7.

From 1 July 2007 up to November 2007 the Board of Brakpan Bus Company (Proprietary) Limited comprises six directors, one executive director and five non-executive directors, two of whom are councillors as observers in the board meetings representing Ekurhuleni Metropolitan Municipality. The directors are appointed by Ekurhuleni Metropolitan Municipality and were drawn from diverse backgrounds and bring a wide range of experience and professional skills to the board. From November 2007 up to the end of the financial year there was no board of directors.

The managing director was appointed in 01 October 2004 on a month to month contract.

3.1.2 Board administration

The board have meetings on a quarterly basis per annum. The majority of the non-executive directors were present in person at all meetings.

3.1.3 Role and function of the board

The board is the accounting authority of Brakpan Bus Company (Proprietary) Limited in terms of the Companies Act, 1973.

The board is responsible for providing strategic direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy to the Executive Management Committee.
The board evaluates and monitors management's compliance with policy and its achievements against objectives. A structured approach is followed for delegation, reporting and accountability, which include reliance on various board committees. The chairman guides and monitors the input and contribution of the directors.

3.1.4 Board evaluation and performance

The shareholder evaluates the performance of the entire board and the individual members on an annual basis. The directors facilitate the evaluation of the performance of the senior management, including the managing director.

3.1.5 Directors' remuneration

Non-executive directors receive fees for their contribution to the board and the committees on which they serve.
The remuneration of the directors is determined by Ekurhuleni Metropolitan Municipality. The rewards and remuneration of the board are linked to the value added to Brakpan Bus Company (Proprietary) Limited.

4. Company secretarial function

The members have agreed to appoint Castfin Trust & Consulting Services CC in order to assist the board members in taking minutes and other secretarial functions.

5. Board committees

A number of board committees exist in order to assist the board in discharging its responsibilities. Each committee operates within the ambit of its defined terms of reference and delegated duties. A comprehensive framework, which assists in the control of the decision-making process and the delegation of authority within Brakpan Bus Company (Proprietary) Limited, has been approved by the board.

The board has approved the terms of reference of each of its committees and reviews the performance and effectiveness of the committees on a regular basis.

6. Executive management committee

The executive management committee comprises the managing director, the executive finance officer and executive operations officer. The committee is chaired by the managing director.

The committee assists the managing director in guiding and controlling the overall direction of the business and is responsible for ensuring the effective management of the day-to-day operations of the business.

7. Audit and risk management committee

7.1 Internal audit

Brakpan Bus Company (Proprietary) Limited was audited by an internal audit team from Ekurhuleni Metropolitan Municipality for the 2007/2008 financial year end.

7.2 Risk management

Ekurhuleni Metropolitan Municipality has approved an external auditing firm in order to compile a report as well as to formulate all the policy and procedures to identify high risk areas.

8. Internal control

The board has ultimate responsibility for establishing a framework for internal control, including an appropriate procurement and provisioning system. The controls throughout Brakpan Bus Company (Proprietary) Limited focus on those critical risk areas identified by operational risk management, confirmed by executive management. The controls are designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities. They contain self-monitoring mechanisms. Management closely monitor the controls and actions are taken to correct deficiencies as they are identified.

9. Audit

The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with the Municipal Finance Management Act and International Auditing Standards.

10. Finance committee

The committee comprises two non-executive directors and the managing director. The chairman of the committee is an independent non-executive director.

The committee is also responsible for evaluating and approving the finance policies and procedures including monitoring of a budget.

11. Human resources and remuneration committee

The committee comprises two non-executive directors and the managing director. The chairman of the committee is an independent non-executive director.

The committee is also responsible for evaluating and approving the human resources policies, the employment equity plan and the workplace skills plan and conducting disciplinary/appeal hearings.

12. Operations committee

The committee comprises two non-executive directors and the managing director. The chairman of the committee is an independent non-executive director.

The operations committee is responsible for guiding the organisation on issues relating to the strategic direction of the company regarding operations, technical and the marketing and business development. Over and above this, the committee is responsible for reviewing certain tenders based on the organisations' level of delegations of authority.

13. Reporting to stakeholders

In order to present a balanced and understandable assessment of its position, Brakpan Bus Company (Proprietary) Limited is continually striving to ensure that its reporting and disclosure to

stakeholders is relevant, clear and effective. It places great emphasis on reporting on both financial and non-financial matters, as well as addressing both positive and negative aspects in order to demonstrate the long-term sustainability of the organisation.
Brakpan Bus Company (Proprietary) Limited predetermined objectives, representing both financial and non-financial key performance indicators and its performance against these indicators are evaluated by the Ekurhuleni Metropolitan Municipality.

14. Stakeholder relations

In addition to the interests of governance by the shareholder, Brakpan Bus Company (Proprietary) Limited recognises the legitimate interests of employees, consumers, suppliers, investors and lenders of capital, trade unions and local communities in its affairs. Communication and interaction with stakeholders are ongoing during the year and is addressed through various channels with clients or passengers through meetings on bi-monthly passenger liaison committee depending on the different needs of the various stakeholders.

15. Social impact

Brakpan Bus Company (Proprietary) Limited prioritises the social needs of the community it serves, as it realised that its success and existence emanates from the said community. Brakpan Bus Company (Proprietary) Limited has contributed towards the gross domestic product for the country by providing direct employment to 65 and 16 indirect technical staff who service our busses daily.

16. Code of ethics

Brakpan Bus Company (Proprietary) Limited is committed to maintaining its integrity in dealing with all stakeholders. The company's code of conduct applies to all employees and forms part of their service contracts.

17. Transformation

Brakpan Bus Company (Proprietary) Limited remains firm in its support of the country's black economic empowerment as embraced by the South African government. Tenderers and companies dealing with the company should have a workable plan aimed at empowering the previously disadvantaged communities.

Brakpan Bus Company (Proprietary) Limited will achieve this without compromising the standards of the deliverables from its partners in business.

18. Employee participation

Participative structures are in place to ensure the ongoing involvement of employees and organised labour in influencing Brakpan Bus Company (Proprietary) Limited's policies and procedures work place forum.

19. Health and safety policy

The health and safety policy and the Occupational Health and Safety Act, 1993, continue to remain the guiding principles for the achievement of Brakpan Bus Company (Proprietary) Limited safety vision. The operations committee regularly reviews the health and safety performance and accidents to ensure that the necessary corrective measures are implemented. The operations committee of the board reviews the overall strategy.

20. Statement of commitment

Brakpan Bus Company (Proprietary) Limited is committed to adherence to the good corporate governance and all relevant legislation governing the local authorities, transport, employment and financial management.

Brakpan Bus Company (Proprietary) Limited
(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Statement of Financial Position

Figures in Rand	Note(s)	2008	2007
Assets			
Non-Current Assets		**430,245**	**764,238**
Plant and equipment	2	355,655	635,681
Deferred tax	3	74,590	128,557
Current Assets		**8,485,895**	**2,162,088**
Trade and other receivables	17	1,758,355	1,251,681
Cash and cash equivalents	4	6,727,540	910,408
Total Assets		**8,916,140**	**2,926,327**
Liabilities			
Current Liabilities		**6,492,216**	**857,644**
Trade and other payables-EMM	18	6,025,351	167,356
Provisions	6	266,393	443,301
Tax Liability	14	200,472	246,987
Net Assets		**2,423,925**	**2,068,683**
Contribution from owner	5	6	6
Retained income		2,423,919	2,068,677
Total net assets			
		8,916,140	**2,926,327**

Brakpan Bus Company (Proprietary) Limited
(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Statement of Financial Performance

Figures in Rand	Note(s)	2008	2007
Revenue	7	12,206,110	10,791,934
Operating expenses		(11,765,405)	(10,112,877)
Operating surplus	8	**440,705**	**679,057**
Investment revenue	9	58,841	4,810
Surplus before taxation		**499,546**	**683,868**
Taxation	10	(144,305)	(241,509)
Surplus for the period		**355,241**	**442,359**

Brakpan Bus Company (Proprietary) Limited

(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Statement of Changes in Net Assets

Figures in Rand	Contribution from owner Note 5	Accumulated surplus	Total net Assets
Balance at 30 June 2006	**6**	**1,626,319**	**1,626,325**
EMM 2004/2005		-528,588	
Balance at 01 July 2006	**6**	**1,097,730**	**1,097,736**
Changes			
Surplus for the year		442,359	442,359
Total changes	-		
Balance at 30 June 2007	**6**	**1,540,089**	**1,540,095**
Balance at 30 June 2007	**6**	**1,540,089**	**1,540,095**
Prior year adjustment 2004/05		528,588	528,588
Balance at 01 July 2007	**6**	**2,068,678**	**2,068,678**
Surplus for the year		355,241	355,241
Balance at 30 June 2008	**6**	**2,423,919**	**2,423,925**

Brakpan Bus Company (Proprietary) Limited
(Registration number 2000/024331/07)
Annual Financial Statements for the year ended 30 June 2008

Cash flow Statement

Figures in Rand	Note(s)	2008	2007
Cash flows from operating activities			
Cash receipts from customers			
Subsidy		6 530 803	5 863 495
Receipts from customers- Special busses		1 071 501	591 206
Passenger fares		4 097 132	3 706 413
		11 699 436	10 161 114
Cash paid to suppliers and employees			
Employee cost		(4 626 803)	(3 190 191)
Maintenance and other cost		(1 187 488)	(6 905 531)
Cash generated from operations	13	5,814,291	65,392
Interest income		58,841	4,810
Tax receipt		19 925	
Proceeds on sale		10,000	
Tax paid	14	(156,779)	(50,000)
Net cash from operating activities		**5,817,132**	**20,202**
Cash flows from investing activities			
Purchase of plant and equipment	2	-	(31,074)
Cash flows from financing activities			
Total cash movement for the period		**5,817,132**	**(10,872)**
Cash at the beginning of the period		910,408	921,280
Total cash at end of the period	4	6,727,540	**910,408**
Total cash movement for the period		**5,817,132**	**(10,872)**

Accounting Policies

1. Presentation of Annual Financial Statements

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice(GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, the effective standards of Generally Recognised Accounting Practice(GRAP), issued by the Accounting Standards Board replacing the equivalent GAAP as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cash flow statements	AC118: Cash flow statements
GRAP3: Accounting policies, changes in Accounting Estimates and errors	AC 103 Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP	**Replaced Statement of GAAP**
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on the statement of financial position such as:
   (a) Receivables from non-exchange transactions, including taxes and transfers
   (b) Taxes and transfers payable
   (c) Trade and other payables from non-exchange transactions

4. Amount and nature of any restrictions on cash balances is required.

*[Disclose a summary of **all** the entity's significant accounting policies resulting from **both**:*

- *the 3 GRAP standards; and*
- *SA Statements of GAAP for those transactions, events and conditions not covered by the 3 GRAP standards.]*

1.1 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment 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. Significant judgements include:

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 6.

Provisions. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Expected manner of realisation for deferred tax

Deferred tax is provided for based on the expected manner of recovery i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax asset.

1.2 Plant and equipment

The cost of an item of plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Company and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of 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 plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Cost model

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

Depreciation is provided on all plant and equipment other than freehold land, to write down the cost, less residual value, on a straight line basis, over their useful lives as follows:

Item	**Average useful life**
Furniture and fixtures	3 years
Motor vehicles	4 years
IT equipment	3 years
Ticket machines	5 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

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 shall be depreciated separately.

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

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

1.3 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.
Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference
between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1.4 Tax

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 balance sheet date.

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 goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits 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 balance sheet date.

1.5
Impairment of assets

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

˜An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.6 Owners contributions and Net assets

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.
The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.8 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to Settle the obligation and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

1.9 Government grants

Government grants are recognised when there is reasonable assurance that:
- the company will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the income statement (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

1.10 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;

- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at balance sheet date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

2. Plant and equipment

	2008			2007		
	Cost	**Acc Dep**	**Carrying Value**	**Cost**	**Acc Dep**	**Carrying Value**
Furniture and fixtures	21,032	(9,913)	11,119	21,032	(1913)	19119
Motor vehicles	259,356	(243,008)	16 348	259,356	(207,263)	52,093
IT equipment	44,115	(36,527)	7,588	44,115	(24,470)	19,645
Ticket machines	1,085,493	(764,893)	320,600	1,085,493	(540,669)	544,824
Total	**1,409,996**	**(1,054,343)**	**355,655**	**1,409,996**	**(774,315)**	**635,681**

Reconciliation of plant and equipment - 2008

	Opening Balance	**Additions**	**Disposal**	**Depreciation**	**Total**
Furniture and fixtures	19,119		(2,072)	(5,928)	11,119
Motor vehicles	52,093		-	(35,745)	16 348
IT equipment	19,645		(1,758)	(10,299)	7,588
Ticket machines	544,824	-	(11,844)	(212,379)	320,600
	635,681		**(15,674)**	**(264,351)**	**355,655**

Reconciliation of plant and equipment - 2007

	Opening Balance	**Additions**	**Disposal**	**Depreciation**	**Total**
Furniture and fixtures	907	19,182	-	(970)	19,119
Motor vehicles	87,838	-	-	(35,745)	52,093
IT equipment	17,312	14,174	-	(11,841)	19,645
Ticket machines	691,385	-	(12,635)	(133,926)	544,824
	797,442	**33,356**	**(12,635)**	**(182,482)**	**635,681**

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

3. Deferred tax

Deferred tax asset @28% (2007 @ 29%) of:		
Provision for audit fees	-	49,817
Provision for bonuses	74,590	78,740
	74,590	**128,557**

Deferred tax reconciliation

Balance at 30 June 2007	128,557	63 249
Adjustment to tax rate from 29% to 28% (128557*28%/29%)	-4,433	-
	124,124	63 249
Less provision reversal	-49,534	65 308
Balance at 30 June 2008	74,590	128 557

4. Cash and cash equivalents

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

	2008	2007
Cash on hand	12,000	6,000
Bank balances	6,715,540	904,408
	6,727,540	**910,408**

5. Contribution from owner

Authorised		
1000 Ordinary shares of R1 each	1,000	1,000
Reconciliation of number of shares issued:		
Reported as at 01 July 2005	6	6
Issued	**6**	**6**
Ordinary		

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

6. Provisions

Provision for audit fees	-	171,784
Provision for Bonuses	266,393	271,517
	266,393	443,301

Reconciliation of provisions – 2008	**Provision for Bonuses**	**Provision for Audit fees**
Opening Balance	**271,517**	**171,784**
Movement current year	**199,782**	
Paid during the year	**(204,906)**	**(171,784)**
Balance	**266,393**	**-**

Reconciliation of provisions – 2007	**Provision for Bonuses**	**Provision for Audit fees**
Opening Balance		**159,600**
Movement current year	**271,517**	**171,784**
Paid during the year		**(159,600)**
Balance	**271,517**	**171,784**

The provision for bonuses represents the present value of the directors' best estimate of the direct costs of the employee cost.

7 Revenue

Subsidy	6,530,802	5,863,495
Passenger fares	4,097,132	3,713,412
Private hire	1,578,175	1,215,027
	12,206,109	**10,791,934**

8. Operating profit

Operating profit for the year is stated after accounting for the following:

Contractual amounts	10,836	11,446
Auditors remuneration	164,676	185,000
Depreciation on property, plant and equipment	264,352	182,482
Directors emoluments	345,301	353,752
Employee costs	4,626,803	4,071,255
Profit (loss) on sale of property, plant and equipment	(5 674)	(10,355)

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

9. Investment revenue

Interest from call account	52,706	
Interest from current account	6,135	4,810
	58,841	4,810

10. Taxation

Major components of the tax expense (income)

Normal tax

Current tax	90,338	266,915
Under/(over)provision		39,904
Deferred tax (asset)/ Liabilities –MTD	53,967	65,308)
Balance	**144,305**	**241,509**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

11. AVERAGE EFFECTIVE TAX RATE

Accounting profit	**499,546**	Effective Rate	**683,868**	Effective Rate
Tax on accounting profit on applicable rate	139,872	28%	198,324	29%
Fines			29	
Prepaid expenses			3,256	1%
Under provision	4,433	.89%	39,904	6%
Balance	**144,305**	**29%**	**241,509**	**36%**
Applicable tax rate	28.00%		29.00%	

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

12. Auditors' remuneration

Fees	164,676	185,000

13. Cash generated from operations

Profit before taxation	499,546	683,868
Adjustments for:		
EMM adjustment 0405	528,588	(528,588)
Depreciation and amortisation	264,351	182,482
Loss on sale of assets	5,674	10,355
Other non-cash item		(493,241)
Interest received	(58,841)	(4,810)
Movements in provisions	(176,908)	283,701
Changes in working capital:		
Trade and other receivables	(506,674)	(630,820)
Trade and other payables	5,329,407	69,207
Provision		
	5,885,145	**65,392**

14. Tax (paid) refunded

Balance at beginning of the period	246,987	(9,830)
Current tax for the period recognised	90,339	306,819
Tax refund	19,925	
Payment of tax	(156,779)	(50,000)
Balance at end of the period	**200,472**	**246,987**

15. Related parties

Relationships

Holding company — Ekurhuleni Metropolitan Municipality

Related party balances

Amounts included in Trade Payable regarding related Parties

Ekurhuleni Metropolitan Municipality	97,972	528,588

Related party transactions

Purchases from related parties

Ekurhuleni Metropolitan Municipality	5,560,131	4,936,167

Notes to the Annual Financial Statements

Figures in Rand	2008	2007

The immediate parent and ultimate controlling party respectively of the Company is Ekurhuleni Metro Municipality.
Transactions between the Holding company and its subsidiary, which are related parties of the Company, have been disclosed below.

Trading transactions

During the year, the company entered into the following trading transactions with Ekurhuleni Metro Municipality:

	2008	2007
Purchases of goods-current		
Fuel and Lubricants	4,020,325	3,167,233
Repairs and maintenance	1,539,806	1,404,298

Amount owed/ (owing) EMM

	2008	2007
Liabilities	6,025,351	695,944

16. Directors' emoluments

	2008	2007
Fees to non executive directors	44,681	75,400
Remuneration to executive director	283 837	278,352
	328 818	**313 752**

17. Trade and other Receivable

	2008	2007
Trade receivables	1,778,621	1,266,709
Allowance for doubtful debt	(20,265)	(15,028)
Balance	1,758,355	1,251,681

18. Trade and other Payables

	2008	2007
Trade Payables	6,025,351	694,284
Accruals		1,659
Balance	6,025,351	695,943

19. GOING CONCERN

The company has an interim contract with the Department of Transport for the provision o passenger transport services. The contract was concluded on 1 April 1997 for a period of three years and has been extended a number of times. Currently the interim contract is being extended on a month to month basis until such time that the Department of Transport would have completed the restructuring of the bus industry whereby contracts will be awarded on either a negotiated basis or tender basis.

During August 2008 the parent municipality passed a resolution to conduct a due diligence in respect of the company. This matter has not yet been considered and finalized by the parent municipality.

These conditions point to the existence of a material uncertainty that may cast doubt on the company's ability to continue as a going concern.

20. EVENTS AFTER THE REPORTING DATE

The company has commenced negotiations with the Department of Transport for the continuation of the subsidy previously received. These negotiations were incomplete at the date of the signing of these financial statements. These busses are made available to Brakpan Bus Company by means of an operating lease until 30 June 2010. Operating leases at a nominal cost of R100 per annum for the busses and the administrative building were entered into and signed on 6 August 2008

21.GOVERNMENT ASSISTANCE

Brakpan Bus Company is using 36 buses and a administrative building that belongs to Ekurhuleni Metropolitan Municipality at a cost that is significantly lower than the market rental. The company is paying a nominal amount of R1 per bus per month for the use of the buses

Detailed Statement of Financial Performance

Figures in Rand	Note(s)	2008	2007
Revenue			
Rendering of services		12,206,110	10,791,934
Other income			
Interest received	9	58,841	4,810
		12,264,951	**10,796,744**
Operating expenses			
Secretary fees			7,000
Advertising		11,583	4,241
Auditors remuneration	12	164,676	185,000
Bad debts		5,237	15,028
Bank charges		59,428	55,521
Cleaning		10,013	9,506
Computer expenses		17,842	10,974
Consulting fees		92,071	33,342
Depreciation, amortisation and impairments		264,352	182,482
Employee costs		4,626,803	4,071,255
Fines and penalties			100
Hire busses		318,200	
Insurance		113,840	20,938
Lease rentals on operating lease		10,836	11,446
Legal expenses		13,642	1,939
Levies		0	0
Loss on disposal of assets		1,844	10,355
Membership fees			9,720
Motor vehicle expenses		5,632,233	4,936,167
Municipal charges		97,972	77,016
Other expenses		101,933	19,931
Postage			234
Printing and stationery		34,021	37,031
Protective clothing		3,938	75,318
Provision for doubtful debts			-62,972
Refreshments		7,789	7,350
Refund - Special busses		6,060	13,807
Repairs and maintenance		26,723	8,653
Security		46,127	61,954
Telephone and fax		28,885	37,912
Training		7,330	16,613
Private Inspection			154,232
Questek Ticket Machines		62,027	98,284
Sundries			2,500
		(11,765,404)	**(10,112,877)**
Operating surplus			
	8	**499,547**	**683,868**