ANNEXURE B

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

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

These annual financial statements were prepared by:
D Dlamini
Chief Financial Officer
These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act, No. 71 of 2008.
Published 30 September, 2017

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	State Owened Company (SOC)
Nature of business and principal activities	Social Housing Institution
Directors	F Segole (Non-Executive Director) L Netshitenzhe (Non-Executive Director) A Pillay (Executive Director) K Maithufi (Non-Executive Director) A Makhado (Non-Executive Director) M Ngobeni (Non-Executive Director) T Limako (Non-Executive Director) L Vutula (Non-Executive Director) Z Nkamana (Non-Executive Director) D Dlamini (Executive Director)
Registered office	Hanover building Cnr Hendrick Potgieter & 7th Avenue Edenvale
Business address	Hanover building Cnr Hendrick Potgieter & 7th Avenue Edenvale
Postal address	P O Box 1245 Germiston 1400
Controlling entity	Ekurhuleni Metropolitan Municipality incorporated in South Africa
Bankers	ABSA Bank Limited
Auditors	Auditor General SA
Secretary	Adv Kgabo Sebola
Company registration number	2000/007937/07

Contents

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

	Page
Accounting Officer's Responsibilities and Approval	3
Directors' Report	4 - 6
Company Secretary’s Certification	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Statement of Comparison of Budget and Actuals	12 - 14
Accounting Policies	15 - 27
Notes to the Annual Financial Statements	28 - 49

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

Accounting Officer's Responsibilities and Approval

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

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

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

The annual financial statements set out on pages 8 to 49, which have been prepared on the going concern basis, were approved by the board on August 29, 2017 and were signed on its behalf by:

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

29 August, 2017

Directors' Report

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

1. Incorporation

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

2. Review of activities

Main business and operations

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

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

3. Going concern

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

The shareholder approved grants of R18 147 434 to Phase II Housing Company (SOC) Ltd for the 2016/17 financial year and R8 000 000 for 2017/18 financial year. Furthermore, an operational grant of R8 480 000 and R8 989 000 has been approved for 2018/19 and 2019/20 respectively.

At 30 June 2017, the entity had an accumulated surplus of R83 150 198 and that the entity's total assets exceed its liabilities by R83 150 298.

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

4. Subsequent events

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

5. Accounting policies

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

6. Contributions from owners

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

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

7. Non-current assets

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

8. Directors

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

Directors' Report

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

9. Secretary

The secretary of the entity is Adv Kgabo Sebola of:

Business address

Hanover building
Cnr Hendrick Potgieter & 7th Avenue
Edenvale
1400

Postal address

P O Box 1245
Germiston
1400

10. Corporate governance

General

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

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

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

Board of directors

The Board:

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

Chairperson and chief executive

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

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

Directors' Report

Remuneration

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

Board meetings

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

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

Audit committee

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

Internal audit

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

11. Controlling entity

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

12. Bankers

ABSA Bank Limited.

13. Auditors

Auditor General SA of South Africa.

Company Secretary's Certification

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

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

Adv Kgabo Sebola
Company Secretary

Johannesburg

Statement of Financial Position as at 30 June, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	3	-	115,175
Loans to related entities	4	420,000	5,035,811
Current tax receivable	5	-	1,053,942
Receivables from exchange transactions	6	1,887,515	452,721
VAT receivable		532,269	-
Consumer debtors	7	793,110	1,089,484
Cash and cash equivalents	9	20,468,752	19,027,246
		24,101,646	**26,774,379**
Non-Current Assets			
Investment property	10	131,622,028	47,858,107
Property, plant and equipment	11	2,499,252	1,149,010
Intangible assets	12	238,603	151,033
Deferred tax	13	-	27,088,609
		134,359,883	**76,246,759**
Total Assets		**158,461,529**	**103,021,138**
Liabilities			
Current Liabilities			
Current tax payable	5	19,019,772	-
Finance lease obligation	14	-	46,581
Deferred operating lease	42	58,620	-
Trade and other payables from exchange transactions	15	4,975,155	2,645,495
Provisions	16	3,046,943	1,741,909
Tenants Deposits	8	4,258,192	3,441,115
VAT Payable		-	330,168
		31,358,682	**8,205,268**
Non-Current Liabilities			
Unspent conditional grants and receipts	17	12,683,355	7,248,863
Deferred tax	13	31,269,194	-
		43,952,549	**7,248,863**
Total Liabilities		**75,311,231**	**15,454,131**
Net Assets		**83,150,298**	**87,567,007**
Contributions from owners	18	100	100
Reserves			
Accumulated Surplus - Recognised gain on transfer of functions- Pharoe Park		19,625,880	19,625,880
Accumulated Surplus - Recognised loss on transfer of functions - EDC		(760,532)	(760,532)
Accumulated surplus		64,284,850	68,701,559
Total Net Assets		**83,150,298**	**87,567,007**

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Rental of facilities and equipment		28,222,722	15,522,536
Retail rental		54,799	-
Recoveries	20	4,034,127	3,497,607
Other income	21	352,363	77,722
Interest received	22	1,523,022	1,593,624
Government grants & subsidies		99,358,484	19,826,170
Total revenue		**133,545,517**	**40,517,659**
Expenditure			
Employee related costs	23	(19,311,334)	-
Remuneration of non-executive directors		(1,529,000)	-
Administration	24	-	(13,176,120)
Depreciation and amortisation		(2,160,278)	(590,368)
Impairment on Loans	27	(4,907,393)	-
Finance costs, SARS interest and penalties	25	(5,200,957)	(46,862)
Lease rentals on operating lease		(403,140)	-
Impairment of Consumer Debtors	26	(2,872,457)	(3,107,221)
Repairs and maintenance	28	(6,741,089)	(3,307,734)
General Expenses	29	(21,444,576)	(8,204,013)
Total expenditure		**(64,570,224)**	**(28,432,318)**
Operating surplus		**68,975,293**	**12,085,341**
Loss on disposal of assets and liabilities		(30,213)	-
Surplus before taxation		**68,945,080**	**12,085,341**
Taxation	30	73,361,789	(26,719,981)
(Deficit) surplus for the year		**(4,416,709)**	**38,805,322**
Attributable to:			
Owners of the controlling entity		(4,416,709)	38,805,322
		(4,416,709)	**38,805,322**

Statement of Changes in Net Assets

Figures in Rand	Contributions from owners	Share premium	Total share capital	Accumulated Surplus - Transfer of functions in: Pharoe Park Housing Company	Accumulated Surplus - Transfer of functions in: Ekurhuleni Development Company	Total addition to Accumulated Surplus - Transfers of functions in	Accumulated surplus	Total net assets
Balance at 1 July, 2015	**108**	**3,999,992**	**4,000,100**	**-**	**-**	**-**	**29,896,237**	**33,896,337**
Changes in net assets								
Surplus for the period	-	-	-	-	-	-	38,805,322	38,805,322
GPF Shares paid	(8)	(3,999,992)	(4,000,000)	-	-	-	-	(4,000,000)
Gains (losses) from mergers or transfer of functions between entities under common control	-	-	-	19,625,880	(760,532)	18,865,348	-	18,865,348
Total changes	(8)	(3,999,992)	(4,000,000)	19,625,880	(760,532)	18,865,348	38,805,322	53,670,670
Opening balance as previously reported	100	-	100	19,625,880	(760,532)	18,865,348	68,701,559	87,567,007
Balance at 1 July, 2016	**100**	**-**	**100**	**19,625,880**	**(760,532)**	**18,865,348**	**68,701,559**	**87,567,007**
Changes in net assets								
Deficit for the period	-	-	-	-	-	-	(4,416,709)	(4,416,709)
Total changes	-	-	-	-	-	-	(4,416,709)	(4,416,709)
Balance at 30 June, 2017	**100**	**-**	**100**	**19,625,880**	**(760,532)**	**18,865,348**	**64,284,850**	**83,150,298**
Note(s)	18	18	18					

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Customers		23,733,556	13,114,942
Grants		26,559,083	16,281,500
Interest income		1,053,283	1,386,485
Other receipts		4,852,170	3,782,468
		56,198,092	34,565,395
Payments			
Employee related costs		(19,330,154)	-
Suppliers		(26,735,021)	(11,233,648)
Finance costs		(107,170)	(46,862)
Other payments		-	(13,176,120)
Taxation		(20,000)	-
		(46,192,345)	(24,456,630)
Net cash flows from operating activities	31	**10,005,747**	**10,108,765**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(1,910,603)	(145,279)
Purchase of investment property	10	(6,872,940)	(22,800)
Purchase of other intangible assets	12	(259,612)	-
Loans to economic entities		(291,582)	(1,435,326)
Work in progress		-	(10,531,500)
Net cash flows from investing activities		**(9,334,737)**	**(12,134,905)**
Cash flows from financing activities			
Reduction of share capital	18	-	(4,000,000)
Receipts/(repayment) of deposits charged		817,077	56,077
Finance lease payments		(46,581)	-
Net cash flows from financing activities		**770,496**	**(3,943,923)**
Net increase/(decrease) in cash and cash equivalents		**1,441,506**	**(5,970,063)**
Cash and cash equivalents at the beginning of the year		19,027,246	23,122,384
Transfer of functions in-Ekurhuleni Development Company (SOC) LTD		-	415,184
Transfer of functions in-Pharoe Park Housing Company (SOC) LTD		-	1,459,741
Cash and cash equivalents at the end of the year	9	**20,468,752**	**19,027,246**

Statement of Comparison of Budget and Actuals

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June 2017											
Financial Performance											
Transfer from Unpent grant-GPF	-	-	-	-		-	2,808,544		2,808,544	- %	- %
Transfers recognised - Capital allocation in kind	-	-	-	-		-	78,233,893		78,233,893	- %	- %
Interest received	1,806,006	-	1,806,006	-		1,806,006	1,523,022		(282,984)	84 %	84 %
Transfers recognised - operational	3,500,000	14,816,047	18,316,047	-		18,316,047	18,316,047		-	100 %	523 %
Other own revenue	41,000,022	-	41,000,022	-		41,000,022	32,664,011		(8,336,011)	80 %	80 %
Total revenue (excluding capital transfers and contributions)	**46,306,028**	**14,816,047**	**61,122,075**	**-**		**61,122,075**	**133,545,517**		**72,423,442**	**218 %**	**288 %**
Employee costs	(14,196,759)	(3,456,000)	(17,652,759)	-	-	(17,652,759)	(19,311,334)	-	(1,658,575)	109 %	136 %
Remuneration of non executive directors	(989,230)	(540,000)	(1,529,230)	-	-	(1,529,230)	(1,529,000)	-	230	100 %	155 %
Impairment of consumer debtors	(3,322,120)	450,000	(2,872,120)			(2,872,120)	(2,872,457)	-	(337)	100 %	86 %
Depreciation and asset impairment	(1,252,672)	(5,358,000)	(6,610,672)			(6,610,672)	(7,067,671)	-	(456,999)	107 %	564 %
Finance charges	(70,886)	-	(70,886)	-	-	(70,886)	(5,200,957)	-	(5,130,071)	7,337 %	7,337 %
Other expenditure	(25,913,230)	(5,912,047)	(31,825,277)	-	-	(31,825,277)	(28,619,018)	-	3,206,259	90 %	110 %
Total expenditure	**(45,744,897)**	**(14,816,047)**	**(60,560,944)**	**-**	**-**	**(60,560,944)**	**(64,600,437)**	**-**	**(4,039,493)**	**107 %**	**141 %**
Surplus/(Deficit)	**561,131**	**-**	**561,131**	**-**		**561,131**	**68,945,080**		**68,383,949**	**12,287 %**	**12,287 %**
Taxation	-	-	-	-		-	73,361,789		73,361,789	- %	- %
Surplus/(Deficit) for the year	**561,131**	**-**	**561,131**	**-**		**561,131**	**(4,416,709)**		**(4,977,840)**	**(787)%**	**(787)%**

Statement of Comparison of Budget and Actuals

Comments

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

1. Revenue

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

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

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

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

An amount of R 2 977 157 was transferred from an unspent grant allocation to defray expenses relating social housing projects. A VAT portion of the grants was accounted for to the value of (R168 613),which is included in the variance of R2 808 544

2. Employee Costs

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

3. Remuneration of Non Executive Directors

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

4. Depreciation and asset impairment

An overspending on Depreciation is due to additions in investment property. Additions to the value of R78 233 893 depreciated by R334 369.

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

5. Finance Costs

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

6. Other expenditure

Statement of Comparison of Budget and Actuals

VAT on management fees amounting to R2 314 640 was budgeted for the year to date. However the related expenditure was not realised as EHC is no longer receiving management fees from Pharoe Park Housing Company (SOC) LTD. Furthermore, there is a adjustment budget amount of R2 082 million allocated to other expenditure item ,which relates to the expenditure recovered from EMM in respect of Block E professional fees. This additional amount was received in the fourth quarter.

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

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

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

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements:

• **Impairment of financial assets at amortised costs**

The entity assesses its financial assets at amortised cost for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for financial assets at amortised cost is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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

• **Impairment of consumer debtors**

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

• **Impairment of property, plant and equipment**

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

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

Accounting Policies

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

Provisions are discounted where the effect of discounting is material, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

• **Budget information**

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

1.2 Presentation currency

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

1.3 Investment property

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

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

At initial recognition, the entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation is provided to write down the cost by equal instalments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	33-50 years

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

Accounting Policies

1.3 Investment property (continued)

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

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

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

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

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

1.5 Intangible assets

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Intangible assets (continued)

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

Internally generated goodwill is not capitalised as an intangible asset.

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

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

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

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

1.6 Financial instruments

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

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

(ii) are held for trading.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Tenants' deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.6 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

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

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Accounting Policies

1.6 Financial instruments (continued)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

Operating leases - lessee

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

Accounting Policies

1.8 Inventories

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

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

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

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

1.9 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Accounting Policies

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.11 Revenue from exchange transactions

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

Accounting Policies

1.11 Revenue from exchange transactions (continued)

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

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

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

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

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

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

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

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.12 Revenue from non-exchange transactions

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

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

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

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

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

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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

Transfers, including Grants and Receipts

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind that are significant to the entity's operations and/or service delivery objectives are recognised as assets. The related revenue is recognised when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the entity’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity shall disclose the nature and type of services in-kind received during the reporting period.

1.13 Borrowing costs

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

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

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the period from 2016/07/01 to 2016/12/31. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.17 Related parties

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

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

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

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

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

1.18 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

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

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

Transfers of functions between entities under common control are accounted for by the acquirer by recognising assets

acquired and liabilities assumed at their carrying amounts at the date of transfer.

Accounting Policies

1.19 Going concern and consolidation of companies (Transfer of functions) (continued)

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

1.20 Comparative figures

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

1.21 Taxes

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities.

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

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

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

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

Tax expenses.

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

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 July, 2017 or later periods.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	1 April, 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	1 April, 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land	1 April, 2019	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	1 April, 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	1 April, 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	1 April, 2018	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

3. Inventories

Raw materials, components	-	115,175

4. Loans to/(from) related entities

Related entities

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

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

Loans to related entities impaired

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

5. Current tax payable

Opening balance	1,053,942	-
Transfer of functions in - Tax receivable Pharoe Park Housing Company (SOC) Ltd	(454,288)	454,288
Transfer of functions in - Tax receivable Ekurhuleni Development Housing Company (SOC) Ltd	(640,266)	619,654
Securities tax payable	10,000	(10,000)
Transfer of functions in-Securities tax paid/(payable) Pharoe Park Housing Company (SOC) Ltd.	10,000	(10,000)
Current year tax payable	(19,368,005)	-
Current year interest and penalties payable	(5,093,785)	-
Transfer duty tax payable	(9,862,511)	-
Tax receivable: Pharoe Park Housing Company (SOC)Ltd	14,680,102	-
Tax receivable: Ekurhuleni Development Company (SOC) Ltd	645,039	-
	(19,019,772)	**1,053,942**

TAX RATE RECONCILIATION	**30 June 2017**	**%**	**30 June 2016**	**%**
(Loss)/Profit before tax	68,945,080	-	12,085,341	-
Tax on profit before tax at standard rate	19,304,623	28	3,383,895	28
Permanent differences: tax receivables	(14,226,529)	(21)	(3,004,878)	(25)
Investment property	9,862,511	14	-	-
Impairment of loans	1,374,070	2	-	-
SARS penalties and interest	1,426,260	2	-	-
Utilisation of assessed loss	(2,404,584)	(3)	-	-
Temporary differences: Investment property and PPE	50,607,899	73	(20,414,284)	(169)
Provisions	3,525,274	5	(2,782,059)	(23)
Assessible tax losses	3,892,265	6	(3,892,266)	(32)
Other	-	-	(10,389)	-
	73,361,789	**106**	**(26,719,981)**	**(221)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Receivables from exchange transactions

Deposits-Office rental	404,809	-
Staff Debtor	274,643	82,000
Related party receivables-EMM	103,931	817
Other receivables	309,688	21,693
Prepaid expenses	794,444	112,307
Other Debtors-Transfer of functions: EDC	-	77,004
Other Debtors-Transfer of functions: Pharoe Park	-	158,900
	1,887,515	**452,721**

Credit quality of trade and other receivables

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

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

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

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

Trade and other receivables past due but not impaired

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

The ageing of these receivables is as follows:

Not more than three months	1,542,303	257,185
More than three months and not more than six months	103,931	-
Over 6 months	241,281	195,536

Trade and other receivables impaired

As of 30 June, 2017, trade and other receivables of R 1,887,515 (2016: R 452,721) are considered not to be impaired and were not provided for.

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

7. Consumer debtors

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

7. Consumer debtors (continued)

Net balance	**10,700,117**	**12,014,843**
Housing rental		
Current (0 -30 days)	1,028,252	1,521,637
31 - 60 days	767,542	690,669
61 - 90 days	695,664	795,726
91 - 120 days	458,500	965,190
121< days	7,750,159	8,041,621
	10,700,117	**12,014,843**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(10,925,359)	(3,838,709)
Contributions to allowance	(2,872,455)	(3,107,221)
Debt impairment written off against allowance	3,890,807	805,346
Debtors impaiment -Transfer of fuctions in: Pharoe Park	-	(4,784,775)
	(9,907,007)	**(10,925,359)**

Consumer debtors collateral

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

Credit quality of consumer debtors

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

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

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

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

Consumer debtors past due but not impaired

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

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

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

8. Tenants deposits

Deposits Charged	4,258,192	3,441,115

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

9. Cash and cash equivalents

Cash and cash equivalents consist of:

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

The entity had the following bank accounts

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

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

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

Unspent conditional grants are restricted for social housing projects only.

Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	149,145,178	(17,523,150)	131,622,028	63,923,170	(16,065,063)	47,858,107

Reconciliation of investment property -30 June 2017

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

Reconciliation of investment property - 30 June 2016

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

-

10. Investment property (continued)

Details of property

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

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

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

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

The properties were registered in the name of Germiston Phase II Housing Company in January 2017. The details of these properties are as follows:

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

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

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

Work in Progress:

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

Details of property

Investment property at cost- Airport Park and Delvile

	2017	2016
- Land	1,686,000	1,686,000
- Buildings	29,070,639	29,070,639
- Work in progress	-	10,531,500
- Capitalised expenditure	10,666,333	134,833
	41,422,972	**41,422,972**

Investment property at cost- Pharoe Park

	2017	2016
-Land	1,995,063	1,995,063
- Buildings	19,548,641	19,548,641
-Capitalised expenditure	7,806,635	933,694
	29,350,339	**22,477,398**

Investment Property at cost-Chris Hani Village

	2017	2016
-Land	137,975	-
-Buildings	78,233,893	-
	78,371,868	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Property, plant and equipment

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

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	285,857	238,020	-	(57,492)	466,385
Motor vehicles	92,336	-	-	(13,295)	79,041
Office equipment	168,642	55,938	-	(111,260)	113,320
IT equipment	308,381	517,400	(10,290)	(138,926)	676,565
Other equipment	293,794	1,099,245	(19,923)	(209,175)	1,163,941
	1,149,010	**1,910,603**	**(30,213)**	**(530,148)**	**2,499,252**

Reconciliation of property, plant and equipment - 30 June 2016

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

Assets subject to finance lease (Net carrying amount)

Office equipment	-	68,537

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

12. Intangible assets

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

Reconciliation of intangible assets - 30 June 2017

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

Reconciliation of intangible assets - 30 June 2016

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

13. Deferred tax

Deferred tax liability

Opening balance	27,088,609	-
Deferred tax asset - transfer of functions in: EDC	-	358,628
Deferred tax from origination of temporary differences	(27,545,763)	26,729,981
Deferred tax movement from reversals of temporary differences	(30,812,040)	-
Total deferred tax (liability)/asset	**(31,269,194)**	**27,088,609**

Reconciliation of deferred tax asset / (liability)

At beginning of year	27,088,609	-
Leave Provision - Transfer of functions in: EDC	-	147,651
Leave provision - current year	234,769	-
Performance Bonus Provision - Transfer of functions in: EDC	-	210,977
Performance Bonus Provision - Current year	109,767	-
Investment Property - Buildings: Pharoe Park (Recognised on transfer date)	-	19,819,866
Investment Property - Buildings: Pharoe Park	(23,268,011)	-
Investment Property - Buildings: Germiston Phase II	(5,021,013)	594,418
Investment property-buildings: Chris Hani	(21,811,866)	-
Property plant and equipment	(221,693)	-
Operating lease liability	16,413	-
Provision for interest on deposit : Pharoe Park (Recognised on transfer date)	(53,951)	53,951
Provision for interest on deposit : Germiston Phase II	(75,155)	75,155
Assessable loss : Germiston Phase II	(3,892,266)	3,892,266
Provision for bad debts	(4,374,797)	2,294,325
	(31,269,194)	**27,088,609**

Recognition of deferred tax liability

The entity has a net deferred tax liability.

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Finance lease obligation

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

It is entity policy to lease certain photocopiers under finance lease. The finance lease agreement ended in June 2017.

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

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

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

15. Trade and other payables from exchange transactions

Trade payables	371,312	132,824
Payroll creditors	1,031	46,645
Accrued 13th cheque bonus	443,651	163,955
Accrued expense-Suppliers	2,402,480	123,518
Accrued Directors fees: Transfer of functions EDC	-	104,000
Other payables	1,649,303	1,995,479
Unallocated receipts	107,378	36,646
Unallocated receipts-Transfer of functions: Pharoe Park	-	42,428
	4,975,155	**2,645,495**

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

16. Provisions

Reconciliation of provisions - 30 June 2017

	Opening Balance	Additions	Utilised during the year	Total
Leave Pay Provision	527,324	1,086,305	(247,844)	1,365,785
Performance Bonus Provision	753,491	1,057,760	(665,737)	1,145,514
Provision for interest on tenant's deposits	461,094	100,085	(25,535)	535,644
	1,741,909	**2,244,150**	**(939,116)**	**3,046,943**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

16. Provisions (continued)

Reconciliation of provisions - 30 June 2016

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

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

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

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

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

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

Movement during the year

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

18. Contributions from owners

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

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

19. Revenue

Rental from investment properties	28,222,722	15,522,536
Agency services	54,799	-
Recoveries	4,034,127	3,497,607
Other income	352,363	77,722
Interest received - investment	1,523,022	1,593,624
Government grants & subsidies	99,358,484	19,826,170
	133,545,517	**40,517,659**

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

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

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

Transfers received		
Government grants & subsidies-Ekurhuleni Metropolitan Municipality	18,147,434	16,281,500
Capital grant in kind-Ekurhuleni Metropolitan Municipality	78,233,893	-
Unspent grant recognised- National Housing Fund	2,977,157	3,544,670
	99,358,484	**19,826,170**

20. Recoveries

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

21. Other income

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

22. Interest received

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

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

23. Employee related costs

Basic	13,957,420	-
Performance bonus	1,057,760	-
Medical aid - company contributions	784,831	-
UIF	55,770	-
SDL	165,089	-
Leave pay provision charge	1,086,305	-
Provident fund	1,016,675	-
Cellphone allowance	149,500	-
Overtime payments	118,681	-
13th Cheques	710,903	-
Travel allowance	208,400	-
	19,311,334	**-**

REMUNERATION OF CHIEF EXECUTIVE OFFICER

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

REMUNERATION OF CHIEF FINANCIAL OFFICER

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Employee related costs (continued)

REMUNERATION OF NON EXECUTIVE DIRECTORS

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

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

24. Administrative expenditure

Administration and management fees - related party	-	13,176,120

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

25. Finance costs

Trade and other payables	7,087	14
SARS- interest and penaties provision	5,093,785	-
Interest paid on tenant's deposits	100,085	46,848
	5,200,957	**46,862**

26. Impairment-Consumer Debtors

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

27. Impairment on Loans

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

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

Lethabong Housig Company (SOC) Limited has been liquidated and an amount of R4 907 293 has been provided as impairment as at 30 June 2017. The recoverable amount of the asset was based on its fair value less costs to liquidate.

28. Repairs and maintenance

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

28. Repairs and maintenance (continued)

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

29. General expenses

Advertising	209,587	-
Assessment rates & municipal charges	595,055	405,126
Auditors remuneration	1,332,749	305,460
Bank charges	538,507	253,922
Cleaning	1,050,970	342,453
Consulting and professional fees	3,988,869	1,131,404
Debt collection	159,374	20,394
Insurance	131,482	303,587
Conferences and seminars	227,649	-
Gardening	-	16,000
Motor vehicle expenses	152,008	-
Pest control	14,011	13,900
Placement fees	654,495	-
Printing and stationery	818,025	-
Security	3,436,330	1,151,184
Software licenses	885,661	-
Telephone and fax	564,557	1,089
Training	172,728	-
Travel and accomodation- local	202,122	-
Electricity	112,188	478,615
Sewerage and waste disposal	390,244	280,853
Water	3,330,945	2,514,667
Refuse	1,692,250	985,359
Bursaries	339,394	-
Catering and Refreshments	154,229	-
Other expenses	291,147	-
	21,444,576	**8,204,013**

30. Taxation

Major components of the tax expense (income)

Deferred Tax	58,357,803	(26,729,981)
Local income tax - current period	5,141,475	-
Securities transfer tax	-	10,000
Transfer duty tax	9,862,511	-
	73,361,789	**(26,719,981)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

31. Cash generated from operations

(Deficit) surplus	(4,416,709)	38,805,322
Adjustments for:		
Depreciation	2,160,278	590,368
Gain on sale of assets and liabilities	30,213	-
Impairment deficit	4,907,393	-
Debt impairment	2,872,457	3,107,221
Movements in operating lease assets and accruals	58,620	-
Movement in provisions	1,305,033	(18,480)
Movement in deferred tax	58,357,803	(26,729,981)
Movement in tax (securities transfer duty payable)	20,073,714	10,000
Capital Grants received in kind	(78,233,893)	-
Changes in working capital:		
Receivables from exchange transactions	(1,967,880)	(7,552)
Consumer debtors	(2,576,083)	(2,407,594)
Trade and other payables from exchange transactions	2,000,309	304,131
Unspent conditional grants and receipts	5,434,492	(3,544,670)
	10,005,747	**10,108,765**

32. Related parties

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

Related party balances

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

Related party transactions

Services provided by related parties		
Ekurhuleni Metropolitan Municipality	6,039,867	4,664,620
Grant in kind received-Chris Hani building		
Ekurhuleni Metropolitan Municipality	(78,233,893)	-
Administration fees paid to related parties		
Ekurhuleni Housing Company (SOC) Limited	-	13,176,120
Grants paid to (received from) related parties		
Ekurhuleni Metropolitan Municipality	(18,147,435)	(16,281,500)

33. Risk management

Capital risk management

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

The capital structure of the entity consists of debt, which includes the borrowings disclosed in note 4, cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the entity monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

Liquidity risk

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

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

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

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

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	-	12,683,355	-	-
Trade and other payables	5,033,775	-	-	-
Provision	3,046,943	-	-	-
Tenants deposits	4,258,192	-	-	-

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

33. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest
rates.

Interest rate risk arises from long-term borrowings therefore the company is not exposed to interest rate risk.

The entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the entity calculates the impact on surplus and deficit of a defined interest rate shift.

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

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

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

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

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

34. Going concern

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

The shareholder approved grants of R18 147 434 to Phase II Housing Company (SOC) Ltd for the 2016/17 financial year and R8 000 000 for 2017/18 financial year. Furthermore, an operational grant of R8 480 000 and R8 989 000 has been approved for 2018/19 and 2019/20 respectively.

At 30 June 2017, the entity had an accumulated surplus of R83 150 198 and that the entity's total assets exceed its liabilities by R83 150 298. Management therefore foresees that the entity will continue as a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand

35. Fruitless and wasteful expenditure

Opening balance	6,425	-
Interest: Ekurhuleni Metropolitan Municipality	-	52,535
Interest and penalties on underpayment of second provisional tax payment	5,093,785	-
Condoned	-	(52,535)
Interest: transfer of functions -Pharoe Park	-	150
Condoned	-	(150)
Opening balance: EDC- transfer of functions	-	6,276
Opening balance: Pharoe Park- transfer of functions	-	149
	5,100,210	**6,425**

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

36. Irregular expenditure

Opening balance	5,363,994	1,218,588
Add: Irregular Expenditure - current year	1,879,177	229,155
Add: Irregular Expenditure-Transfer of functions EDC- prior years	-	2,391,969
Add: Irregular Expenditure-Transfer of functions EDC- Prior years	-	27,914
Add: Irregular Expenditure-Transfer of functions Pharoe Park- prior years	-	1,192,585
Add: Irregular Expenditure-Transfer of functions Pharoe Park- current year	-	303,783
	7,243,171	**5,363,994**

Analysis of expenditure awaiting condonation per age classification

Current year	1,879,177	532,938
Prior years	5,363,994	4,831,056
	7,243,171	**5,363,994**

Details of irregular expenditure – current year

Six contracts awarded	Transaction value exceeding R200 000	1,879,177

A total amount of R1 879 177 relates to contracts awarded in the current year for the tiling project, which exceeded a transaction value of R200 000 (VAT included) and did not go through a competitive bid process.

The Ekurhuleni Metro Municipality (EMM) internal audit prepared a forensic report on the tender irregularity for the prior years. Subsequent to the report, the board appointed Mohamed Randera & Associates to make recommendations with regard to the implementation of the report.

37. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

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

Notes to the Annual Financial Statements

Figures in Rand

37. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	532,269	-
VAT payable	-	330,168
	532,269	**330,168**

38. Financial instruments disclosure

Categories of financial instruments

30 June 2017

Financial assets

	At amortised cost
Loans to economic entities	420,000
Trade and other receivables from exchange transactions	2,419,784
Consumer debtors	793,110
Cash and cash equivalents	20,468,752
	24,101,646

Financial liabilities

	At amortised cost
Trade and other payables from exchange transactions	24,053,546
Tenants deposits	4,258,192
Unspent conditional Grant	12,683,355
	40,995,093

30 June 2016

Financial assets

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

Financial liabilities

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

39. Operating lease

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

40. Deviation from supply chain management regulations

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

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

During the year under review, services to the contract value of R1 936 571 were procured without following the normal procurement processes as established by the Supply Chain Management Policy. These services includes Security, tenant vetting, installation of gates, and accounting services. The reasons for the deviations were documented and reported to the board. The board considered the report and approved the deviations.

41. Budget differences

Changes from the approved budget to the final budget

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

42. Deferred operating lease

Office building: Leased	(58,620)	-

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

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