

**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, 2020**

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Property development and management of social and rental housing stock
Directors	B Moholo (Non-Executive Director) D Pertab (Executive Director) GB Molefe (Executive Director) HT Thopola (Non-Executive Director) L Netshitenzhe (Non-Executive Director) T Vukea (Non-Executive Director) T Limako (Non-Executive Director) Z Nkamana (Non-Executive Director)
Registered office	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale
Business address	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale
Postal address	P O Box 1245 Germiston 1400
Controlling municipality	City of Ekurhuleni Domiciled in South Africa
Bankers	ABSA Bank Limited Corporate and Investment Banking
Auditors	Auditor - General South Africa 39 Scott Street Houghton
Company Secretary	Adv Tebogo Mogosoana
Company registration number	2000/007937/07
Preparer	The annual financial statements were prepared under the supervision of: D Pertab CA(SA) Chief Financial Officer

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

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Abbreviations

AGSA	Auditor General South Africa
EHC	Ekurhuleni Housing Company
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
CoE	City of Ekurhuleni
MPAC	Municipal Public Accounts Committee
Pharoe Park	Pharoe Park Housing Company (SOC) Ltd
SARS	South African Revenue Services
SHRA	Social Housing Regulatory Authority
SOC	State owned Company
ITC	Credit bureau
SCM	Supply Chain Management

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

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Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act, No. 56 of 2003, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of EHC as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards 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 directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the EHC. While operating risk cannot be fully eliminated, the EHC endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the EHC's cash flow forecast for the next financial year ending to 30 June, 2021 and, in the light of this review and the current financial position, they are satisfied that the EHC has or has access to adequate resources to continue in operational existence for the foreseeable future.

The EHC is wholly dependent on the City of Ekurhuleni for continued funding of operations. The annual financial statements are prepared on the basis that the EHC is a going concern and that the City of Ekurhuleni has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the directors are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 44, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 October, 2020 and were signed on its behalf by:

B Moholo (Non-Executive Director)
Chairperson-Board of Directors

GB Molefe (Executive Director)
Chief Executive Officer

30 October, 2020

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Directors' Report

The directors submit their report for the year ended 30 June, 2020.

1. Incorporation

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

2. Review of activities

Main business and operations

The entity's main business is property development and the management of social and rental housing stock.

The entity is engaged in property development and management of social and rental housing stock activities and operates as a municipal entity under the laws of South Africa.

3. Going concern

The annual financial statements are prepared on the going concern basis. The Board of Directors therefore foresees that the entity will continue as a going concern. The continued existence of the entity is dependent on the financial support of its shareholder.

The shareholder approved grants of R22 800 000 to the entity for the 2019/2020 financial year. A grant of R16 000 000 has been approved for the 2020/2021 financial year.

At 30 June, 2020, the entity had an accumulated surplus of R 184,301,073 and the entity's total assets exceeded its liabilities by R 184,301,173.

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

4. Subsequent events

The Board of Directors are not aware of any events that occurred between the reporting date and the date the financial statements were authorised for issue that requires adjustments to or disclosure in the financial statements.

5. Accounting policies

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

6. Contributions from owners

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

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

7. Non-current assets

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

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Directors' Report

8. Directors

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

Name	Nationality	Date appointed
B Moholo (Non-Executive Director)	South African	01 November 2018
D Pertab (Executive Director)	South African	01 May 2019
GB Molefe (Executive Director)	South African	01 March 2019
HT Thopola (Non-Executive Director)	South African	01 November 2018
L Netshitenzhe (Non-Executive Director)	South African	01 November 2018
T Vukea (Non-Executive Director)	South African	01 November 2018
T Limako (Non-Executive Director)	South African	01 November 2018
Z Nkamana (Non-Executive Director)	South African	01 November 2018

9. Secretary

The company secretary, Adv. Kgabo Sebola resigned effective the 31 March 2020. The entity has appointed an acting company secretary, Mr. Phakane Phahlamohlaka on 01 April 2020 to 30 September 2020. Ms. Mosa Mntungwa was appointed as acting company secretary effective 1 October 2020. The vacancy in the company secretary position was filled effective 01 November 2020.

The company secretary of the entity is Adv Tebogo Mogosoana of:

Business address

Hanover building
Cnr Hendrik Potgieter & 7th Avenue
Edenvale
1400

Postal address

P O Box 1245
Germiston
1400

10. Corporate governance

General

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

The entity confirms and acknowledges its responsibility to adopt Code of Corporate Practices and Conduct ("the Code") laid out in the King IV report on Corporate Governance for South Africa. The Board of Directors reviews management reports at board meetings on a quarterly basis.

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

Board of directors

The Board:

- ensures that the entity complies with its mandate and responsibilities including, its plans and strategy;
- acknowledges its responsibility towards strategic development, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising 6 non-executive independent directors and 2 executive directors.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Directors' Report

Chairperson and chief executive

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

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

Remuneration

The remuneration of the Executive Directors and Non-Executive Directors' fees are determined by the shareholder. The remuneration of key management and directors's fees are disclosed in a note of the annual financial statements.

Board meetings

The board had 4 ordinary board meetings and 3 special board meetings during the year under review. The board schedules to meet at least 4 times per annum.

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

Audit committee

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

Internal audit

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

11. Controlling municipality

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

12. Bankers

ABSA Bank Limited.

13. Auditors

Auditor - General South Africa.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

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 in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Adv Tebogo Mogosoana
Company Secretary

Johannesburg
30 October, 2020

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Position as at 30 June, 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Loan to economic entity	3	304,652	336,000
Current tax receivable	10	3,221,134	-
Deferred operating lease	11	40,892	-
Receivables from exchange transactions	4	1,540,989	4,741,556
VAT receivable		-	35,608
Consumer debtors	5	3,409,375	7,620,115
Cash and cash equivalents	6	21,303,243	43,538,005
		29,820,285	56,271,284
Non-Current Assets			
Investment property	7	196,397,874	200,864,806
Property, plant and equipment	8	7,073,571	3,234,315
Intangible assets	9	-	9,725
		203,471,445	204,108,846
Total Assets		233,291,730	260,380,130
Liabilities			
Current Liabilities			
Current tax payable	10	-	5,002,730
Deferred operating lease	11	-	13,329
Trade and other payables from exchange transactions	12	2,475,736	8,666,260
Provisions	13	2,938,565	1,898,885
Tenants Deposits	14	5,375,606	5,241,915
VAT Payable		88,842	-
		10,878,749	20,823,119
Non-Current Liabilities			
Unspent conditional grants and receipts	15	-	20,862,707
Deferred tax	16	38,111,808	41,654,198
		38,111,808	62,516,905
Total Liabilities		48,990,557	83,340,024
Net Assets		184,301,173	177,040,106
Contributions from owners	17	100	100
Accumulated surplus		184,301,073	177,040,006
Total Net Assets		184,301,173	177,040,106

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Rental from investment properties	18	42,121,638	40,415,154
Retail rent		27,372	54,505
Recoveries	19	6,304,406	5,662,454
Other income	20	1,005,096	6,837,254
Interest received	21	4,943,296	3,005,792
Total revenue from exchange transactions		54,401,808	55,975,159
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	18	22,672,053	70,244,808
Other grants	18	20,862,707	-
Total revenue from non-exchange transactions		43,534,760	70,244,808
Total revenue		97,936,568	126,219,967
Expenditure			
Employee related costs	22	(24,528,897)	(21,186,129)
Non-Executive Directors' fees		(2,770,954)	(3,275,016)
Depreciation and amortisation	8, 7, 9	(5,845,201)	(5,383,076)
Finance costs and penalties	23	(68,772)	(358,214)
Lease rentals on operating lease		(677,768)	(622,106)
Impairment of Consumer Debtors	24	(27,274,234)	(10,081,910)
Repairs and maintenance	25	(4,216,746)	(5,618,616)
Loss on scrapped assets		(17,105)	(355,386)
General Expenses	26	(25,151,606)	(22,684,667)
Total expenditure		(90,551,283)	(69,565,120)
Surplus before taxation		7,385,285	56,654,847
Taxation	27	124,217	14,179,836
Surplus for the year		7,261,068	42,475,011

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Statement of Changes in Net Assets

Figures in Rand	Contributions from owners	Accumulated surplus	Total net assets
Opening balance as previously reported	100	124,702,484	124,702,584
Adjustments			
Correction of errors	-	9,862,511	9,862,511
Balance at 1 July, 2018 as restated*	100	134,564,995	134,565,095
Changes in net assets			
Surplus (Deficit) for the period	-	42,475,011	42,475,011
Total changes	-	42,475,011	42,475,011
Opening balance as previously reported	100	177,035,550	177,035,650
Adjustments			
Correction of errors	-	4,455	4,455
Restated* Balance at 1 July, 2019	100	177,040,005	177,040,105
Changes in net assets			
Surplus (Deficit) for the period	-	7,261,068	7,261,068
Total changes	-	7,261,068	7,261,068
Balance at 30 June, 2020	100	184,301,073	184,301,173
Note(s)	39&17		

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Customers		19,545,319	25,206,645
Grants		25,833,053	67,083,809
Interest income		4,657,979	2,918,343
Other receipts		7,287,276	5,847,602
		<u>57,323,627</u>	<u>101,056,399</u>
Payments			
Employee related costs		(26,354,845)	(25,583,047)
Suppliers		(36,184,433)	(25,482,761)
Finance costs and penalties		(49,182)	(790,864)
Taxation paid	28	(11,868,249)	(40,103,614)
		<u>(74,456,709)</u>	<u>(91,960,286)</u>
Net cash flows from operating activities	29	<u>(17,133,082)</u>	<u>9,096,113</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	<u>(5,235,371)</u>	<u>(1,339,282)</u>
Cash flows from financing activities			
Receipts/(repayment) of deposits charged		<u>133,691</u>	<u>241,002</u>
Net increase/(decrease) in cash and cash equivalents		<u>(22,234,762)</u>	<u>7,997,833</u>
Cash and cash equivalents at the beginning of the year		43,538,005	35,540,172
Cash and cash equivalents at the end of the year	6	<u>21,303,243</u>	<u>43,538,005</u>

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Statement of Comparison of Budget and Actuals

Figures in Rand

	Original budget (Refer to note 38)	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June 2020											
Financial Performance											
Interest received	1,882,682	-	1,882,682	-		1,882,682	4,943,296		3,060,614	263 %	263 %
Transfers recognised	55,440,000	(32,640,000)	22,800,000	-		22,800,000	22,672,053		(127,947)	99 %	41 %
Other own revenue	54,450,604	16,692,713	71,143,317	-		71,143,317	70,321,219		(822,098)	99 %	129 %
Total revenue (excluding capital transfers and contributions)	111,773,286	(15,947,287)	95,825,999	-		95,825,999	97,936,568		2,110,569	102 %	88 %
Employee costs	(28,274,195)	2,965,807	(25,308,388)	-	-	(25,308,388)	(24,528,897)	-	779,491	97 %	87 %
Remuneration of Non- Executive Directors	(3,300,000)	654,548	(2,645,452)	-	-	(2,645,452)	(2,770,954)	-	(125,502)	105 %	84 %
Debt impairment	(5,998,455)	(1,283,693)	(7,282,148)			(7,282,148)	(27,274,234)	-	(19,992,086)	375 %	455 %
Depreciation and asset impairment	(5,021,243)	(1,130,000)	(6,151,243)			(6,151,243)	(5,845,201)	-	306,042	95 %	116 %
Finance charges	-	-	-	-	-	-	(68,772)	-	(68,772)	- %	- %
Other expenditure	(29,171,422)	(2,639,526)	(31,810,948)	-	-	(31,810,948)	(30,063,225)	-	1,747,723	95 %	103 %
Total expenditure	(71,765,315)	(1,432,864)	(73,198,179)	-	-	(73,198,179)	(90,551,283)	-	(17,353,104)	124 %	126 %
Surplus/(Deficit)	40,007,971	(17,380,151)	22,627,820	-		22,627,820	7,385,285		(15,242,535)	33 %	18 %
Taxation	-	6,842,849	6,842,849	-		6,842,849	124,217		(6,718,632)	2 %	- %
Surplus/(Deficit) for the year	40,007,971	(24,223,000)	15,784,971	-		15,784,971	7,261,068		(8,523,903)	46 %	18 %

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Statement of Comparison of Budget and Actuals

Comments

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

1. Revenue

1.1 Interest received

Actual Interest received from investments and bank accounts is R1, 6 million, and from overdue debtor's accounts is R3, 3 million. Interest received exceeded the budget by R3 million, which consists of R2 million for interest on overdue accounts and R1 million relating to interest from bank accounts. Overdue debtor's accounts have increased during the year. Interest from investments was also higher than budgeted as high positive balances were maintained in the investments.

1.2 Transfers recognised

The original budget was reduced in the adjustment budget process by a capital grant of R38, 6 million, while an operational grant was increased by R6 million for income tax. The net effect of the adjustment budget is a reduction of R32, 6 million. The projects affected by this reduction in the budget have been funded in the CoE budget. EHC is acting as an implementing agent for the projects.

1.3 Other own revenue

During the adjustment budget, the budget for other own revenue increased by R16,7 million, which consists of other grants of R20,9 million recognised as income during the year and a reduction of R4,2 million on the rental income budget.

2. Non-Executive Directors' fees

The expenditure is more than the budget by 5%. The actual expenditure is based on the number of meetings attended. During the year under review, 3 special board meetings were attended in addition to 4 ordinary board meetings.

4. Debt impairment

The variance of R19, 9 million is mainly due to a rapid increase in the debtor's book as a result of deteriorating collections.

5. Depreciation and amortisation

Depreciation and amortisation actual expenditure is lower than the budget by (5%) The budget was adjusted during the year, however certain machinery and equipment acquisitions occurred later than budgeted.

6. Finance Costs

Finance costs relates to interest on tenant deposit.

7. Other expenditure

Other expenditure is less than the budget by 5%. The original budget was increased by R2, 6 million during the year, mainly for the cleaning and security services, however the actual spent was less than budgeted. New cleaning and security service providers were appointed during the financial year.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

The annual financial statements have been 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.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless 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. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively:

• 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 balance 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 categories across all debtor classes. Accordingly, no further credit provisions are required in excess of the present allowance for doubtful debts.

• 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

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

• 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 are 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

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

1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held to earn rentals and/or for capital appreciation rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

Investment property is for social housing initiatives and is assessed as a non-cash generating asset.

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:

Item	Estimated useful life (range in years)
Property - land	indefinite
Property - buildings	32-50 years

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

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

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.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

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Accounting Policies

1.3 Investment property (continued)

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, its deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire an item of property, plant and equipment and costs incurred subsequently to add to, replace part of. 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	Estimated useful life (range in years)
•Furniture and Office Equipment	3-21 years
• Motor vehicles	14 years
• IT equipment	2-16 years
• Other Equipment	4-12 years

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

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

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

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Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

1.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets and obligations.

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.

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.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the Entity.

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

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.

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, other	2-15 years

Intangible assets are derecognised:

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

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

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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Accounting Policies

1.6 Financial instruments (continued)

Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with the Standards of GRAP 104 the Financial Assets of the entity are classified as follows into the three categories allowed by this standard:

- Financial asset at amortised cost, being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current asset
- Financial assets measured at fair value, being financial assets that meet either of the following conditions:
 - a) Derivatives;
 - b) Combined instruments that are designated at fair value;
 - c) Instruments held for trading;
 - d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
 - e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
- Financial assets measured at cost, being investments in residual interests that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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
Other Investments	Financial asset measured at cost
Financial Liabilities	

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of Financial Liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at fair value; or
- Financial liabilities 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

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Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.6 Financial instruments (continued)

Tenants' deposits Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

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

Impairment and recoverability 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).

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

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Accounting Policies

1.6 Financial instruments (continued)

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

Presentation

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

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

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

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Entity. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating leases - lessor

The operating lease agreements are entered for a period of 12 months, subject to the renewal there after. Based on the contingency of the renewal and an annual increase, the entity does not recognize revenue on the straight line basis. The entity accounts for revenue on the actual invoicing that is representative of the time pattern in which the benefit is derived from the leased asset.

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.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

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Accounting Policies

1.8 Provisions and contingencies

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

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

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

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

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

1.9 Impairment of non-cash-generating assets

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

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

Identification

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

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

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.

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.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

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Accounting Policies

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

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.

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

1.10 Revenue from exchange transactions

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

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

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

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

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

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

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

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on the actual invoicing that is representative of the time pattern in which the benefit is derived from the leased asset.

Revenue relating to recoveries for refuse, water and sewerage is recognised on a monthly basis by applying the approved tariffs to each occupied unit. Tariffs for water are determined per category size of the unit. Refuse and sewerage tariffs are determined at a standard rate per revenue category for all units.

Other income is recognised as it accrues.

1.11 Revenue from non-exchange transactions

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

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Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

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.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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, whichever is earlier.

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

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

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

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

Transfers, including Grants and Receipts

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

Gifts and donations, including goods in-kind

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Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

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

Services in-kind

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

1.12 Fruitless and wasteful expenditure

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

1.13 Irregular expenditure

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

1.14 Budget information

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

The approved budget covers the period from 2019/07/01 to 2020/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.15 Related parties

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

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

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.

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

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

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

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Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.16 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

1.17 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability 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.

1.18 Taxes

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities.

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

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

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

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

Tax expenses.

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

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Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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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, 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	1 April, 2021	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	1 April, 2020	No impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	1 April, 2020	No impact
• GRAP 35: Consolidated Financial Statements	1 April, 2020	No impact
• GRAP 36: Investments in Associates and Joint Ventures	1 April, 2020	No impact
• GRAP 37: Joint Arrangements	1 April, 2020	No impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	No impact
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	1 April, 2020	No impact
• Directive 7 (revised): The Application of Deemed Cost	1 April, 2020	No impact
• GRAP 18 (as amended 2016): Segment Reporting	1 April, 2020	No impact

3. Loan to related entity

Related entity

Lethabong Housing Company (SOC) Limited	304,652	336,000
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Inter-company loan is unsecured, interest free with no specific repayment terms. The recovery of R304 652 will be realised upon the distribution of Lethabong Housing Company (SOC) Limited liquidation dividend.

Loan to related entity impaired

As at 30 June 2020, loan to related entity was impaired by R31, 348: (30 June 2019: R84 000) based on the recoverability assessment provided by the liquidators.

4. Receivables from exchange transactions

Deposits	404,809	404,809
Staff Debtors	-	18,780
Related party receivables-City of Ekurhuleni	464,226	771,158
Other receivables	400,938	3,412,343
Prepaid expenses	271,016	134,466
	1,540,989	4,741,556

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.

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Receivables from exchange transactions (continued)		
The ageing of amounts past due but not impaired is as follows:		
Exceeding 1 month past due	104,726	5,197
5. Consumer debtors		
Gross balances		
Housing rental	45,844,383	23,970,753
Less: Allowance for impairment		
Housing rental	(42,435,008)	(16,350,638)
Net balance		
Housing rental	3,409,375	7,620,115
Housing rental		
Current (0 -30 days)	577,754	3,216,081
31 - 60 days	3,550,051	2,571,524
61 - 90 days	3,257,762	2,171,623
91 - 120 days	3,020,597	1,903,883
121 - 365 days	35,438,219	14,107,642
	45,844,383	23,970,753
Reconciliation of allowance for impairment		
Balance at beginning of the year	(16,350,638)	(11,755,343)
Contributions to allowance	(27,274,234)	(10,081,910)
Debt impairment written off against allowance	1,189,864	5,486,615
	(42,435,008)	(16,350,638)
Consumer debtor's collateral		
Tenants deposits held as collateral on amounts owing is R 5,375,606 (2019: R 5,241,915).		
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, 2020, R 3,209,318 (2019: R 7,959,228) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	2,572,588	3,216,081
2 months past due	579,100	2,571,524
3 months past due	57,630	2,171,623
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	920	1,018
Short-term tenants deposits	3,829,044	3,700,226
Short-term investments	10,182,156	17,850,927
Bank balances	7,291,123	21,985,834
	21,303,243	43,538,005

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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6. Cash and cash equivalents (continued)

Cash and cash equivalents earn interest at fixed rates.

The entity had the following bank accounts

Account number /description	Closing balance: 30 June 2020	Opening balance: 01 July 2019	Opening balance: 01 July 2018
ABSA Current account - 4052348660	1,917,218	15,243,343	8,899,506
ABSA Call account - 4078340070	2,285,679	2,208,784	2,119,248
ABSA-current account-4055919492	1,026,192	637,090	487,202
ABSA Fixed deposit account - 80809458	-	-	5,059,622
ABSA- current account-4050383636	4,347,712	6,105,401	8,499,553
ABSA call account- 4078340151	1,543,364	1,491,442	1,430,985
Call 32 Day 676886622010	10,182,158	17,850,927	9,043,858
	21,302,323	43,536,987	35,539,974

7. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	226,923,569	(30,525,695)	196,397,874	226,923,569	(26,058,763)	200,864,806

Reconciliation of investment property -30 June 2020

	Opening balance	Depreciation	Total
Investment property	200,864,806	(4,466,932)	196,397,874

Reconciliation of investment property - 30 June 2019

	Opening balance	Depreciation	Total
Investment property	205,331,738	(4,466,932)	200,864,806

The entity is restricted in terms of section 24 (b) of the MFMA Asset Transfer Regulations, which states that an organ of state may not without the written approval of the parent municipality transfer exempted capital asset to another person, dispose or grant a right to another person to use, control or manage the capital asset or encumber the capital asset in any way.

Amounts recognised in the statement of financial performance includes repairs and maintenance arising from investment property (30 June 2020: R4,216,746); (30 June 2019: R5,618,616) and rental revenue from investment property (30 June 2020: R42,121,638); (30 June 2019:R40,415,154).

Details of property

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 (remaining extent) of the farm Klippoortjie 110-IR, Germiston. The property was developed in 2002. It has 548 social housing rental units.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
7. Investment property (continued)		
Erf 122 to 128,130,132,134 to 139,263,265,267,269 to 271,287 and 305 to 308 in WEST GERMISTON was developed in 1998. The property has 440 social housing rental units. The properties were registered in the name of Germiston Phase II Housing Company in January 2017.		
Erf 808 Germiston-Chris Hani property. The company took control of the property during April 2017. The property is in the process of being registered in the name of Germiston Phase II Housing Company. Transfer duty of R9,862,511 has been added as work in progress and will be capitalised at registration of the property.		
Erf 948 Delville Ext 9 property. The company took control of the property in October 2017.		
Investment properties were developed for the purpose of earning rental income and meeting housing service delivery needs.		
Investment properties registered in the name of Germiston Phase II Housing Company (SOC) Ltd were valued in June 2018 at fair value of R328 650 000. The amount excludes the new buildings of Delville Ext 9, which can be valued at cost of R 67 084 729.		
Details of property		
Investment property at cost- Airport Park and Delville		
Terms and conditions		
- Land	1,484,465	1,484,465
- Buildings	29,070,639	29,070,639
- Capitalised expenditure	134,833	134,833
	30,689,937	30,689,937
Investment property at cost- Pharoe Park		
Terms and conditions		
- Land	1,995,063	1,995,063
- Buildings	9,848,291	9,848,291
- Capitalised expenditure	28,869,635	28,869,635
	40,712,989	40,712,989
Investment Property at cost-Chris Hani Village		
Terms and conditions		
- Land	137,975	137,975
- Buildings	78,233,893	78,233,893
- Capitalised expenditure	9,862,511	9,862,511
	88,234,379	88,234,379
Investment Property at cost- Delville Ext 9		
Terms and conditions		
- Land	201,535	201,535
- Buildings	67,084,729	67,084,729
	67,286,264	67,286,264
Total		
- Land	3,819,038	3,819,038
- Buildings	184,237,552	184,237,552
- Capitalised expenditure	38,866,979	38,866,979
	226,923,569	226,923,569

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Notes to the Annual Financial Statements

	2020			2019 Restated*		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and Fittings	873,158	(446,447)	426,711	870,747	(371,063)	499,684
Motor vehicles	-	-	-	114,958	(114,957)	1
Office equipment	532,291	(298,655)	233,636	541,554	(225,713)	315,841
IT equipment	1,517,161	(788,793)	728,368	1,439,686	(634,319)	805,367
Other equipment	7,507,873	(1,823,017)	5,684,856	2,543,389	(929,967)	1,613,422
Total	10,430,483	(3,356,912)	7,073,571	5,510,334	(2,276,019)	3,234,315

Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	Assets Scrapped	Depreciation	Total
Furniture and Fittings	499,684	2,411	-	(75,384)	426,711
Motor vehicles	1	-	(1)	-	-
Office equipment	315,841	-	(955)	(81,250)	233,636
IT equipment	805,367	241,915	(22,972)	(295,942)	728,368
Other equipment	1,613,422	4,991,045	(3,640)	(915,971)	5,684,856
	3,234,315	5,235,371	(27,568)	(1,368,547)	7,073,571

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Assets scrapped	Depreciation- Prior period error	Depreciation	Total
Furniture and Fittings	522,697	78,795	(26,554)	1,555	(76,809)	499,684
Motor vehicles	45,069	-	-	-	(45,068)	1
Office equipment	209,980	181,764	(15,673)	230	(60,460)	315,841
IT equipment	880,731	285,124	(79,663)	4,403	(285,228)	805,367
Other equipment	1,476,772	793,600	(233,496)	-	(423,454)	1,613,422
	3,135,249	1,339,283	(355,386)	6,188	(891,019)	3,234,315

Other equipment consists mainly of security related assets, water metres and heat pumps

Security access control system with a carrying value of R86,423 was impaired by R3,639 in the 2019/20 financial year (30 June 2019-R0).

There was no other impairment of property, plant and equipment during the period under review (30 June 2019-R0).

The useful life of assets were revised and the impact in the current period is disclosed under note 40.

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
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9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	-	-	-	333,503	(323,778)	9,725

Reconciliation of intangible assets - 30 June 2020

	Opening balance	Assets scrapped	Amortisation	Total
Computer software	9,725	(4)	(9,721)	-

Reconciliation of intangible assets - 30 June 2019

	Opening balance	Amortisation	Total
Computer software	41,038	(31,313)	9,725

10. Current tax payable

Opening Balance	(5,002,730)	(36,968,047)
Prior year provisional tax refund receivable	-	1,520,408
Transfer duty paid	9,862,511	-
Prior year interest receivable on amounts due by SARS	-	121,823
Current year tax payable	-	(18,458)
Current year tax receivable	2,443,533	-
Current year penalty waived receivable	-	773,837
Previous year tax paid in current year	-	23,101,308
Previous year interests and penalties	-	4,004,227
Prior year provisional tax, interest and penalties refund received	(4,104,403)	-
Previous year penalties overprovided, receivable in current year	-	2,462,172
Interest receivable current year	22,223	-
	3,221,134	(5,002,730)

TAX RATE RECONCILIATION

	30 June 2020	%	30 June 2019	%
(Loss)/Profit before tax	7,385,285	-	56,654,847	-
Tax on profit before tax at standard rate	2,067,880	28	15,863,357	28
SARS penalties and interest paid	-	-	4,749	-
SARS penalties and interest reversals	-	-	(1,741,439)	(3)
Temporary differences	2,701,817	37	53,169	-
Exempt Government grant	(4,645,480)	(63)	-	-
	124,217	2	14,179,836	25

11. Deferred operating lease

Office building: Leased	(40,892)	13,329
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GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

			2020	2019 Restated*
11. Deferred operating lease (continued)				
Operating Lease- Building 30 June 2020	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	778,714	267,838	-	1,046,552
Operating Lease- Building 30 June 2019				
	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	721,031	1,046,552	-	1,767,583

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

12. Trade and other payables from exchange transactions

Trade payables	210,908	856,061
Payroll creditors	18,586	76,776
Accrued 13th cheque bonus	806,234	749,740
Accrued expense-Suppliers	53,078	5,067,759
Other payables	520,501	267,086
Unallocated receipts	17,071	111,216
Advance payments-consumer debtors	849,358	1,537,622
	2,475,736	8,666,260

Trade and other payables are interest bearing and are normally settled within 30 days. All other payables are noninterest bearing and have an average term of three months.

13. Provisions

Reconciliation of provisions - 30 June 2020

	Opening Balance	Additions	Utilised during the year	Total
Legal fees	-	156,000	-	156,000
Leave Pay Provision	1,113,994	439,878	(445,850)	1,108,022
Performance Bonus Provision	-	894,483	-	894,483
Provision for interest on tenant's deposits	784,891	13,320	(18,151)	780,060
	1,898,885	1,503,681	(464,001)	2,938,565

Reconciliation of provisions - 30 June 2019

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave Pay Provision	1,099,558	659,939	(645,503)	-	1,113,994
Performance Bonus Provision	1,270,930	-	-	(1,270,930)	-
Provision for interest on tenant's deposits	623,784	189,145	(28,038)	-	784,891
	2,994,272	849,084	(673,541)	(1,270,930)	1,898,885

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
13. Provisions (continued)		
The provision represents management's best estimate of the entity's liability.		
Provision for legal fees is based on the amount claimed by the service provider, however the amount is been disputed.		
A provision for leave is recognised for leave due to employees at year end. The provision for leave is calculated by multiplying the number of leave days due to each employee by a daily rate based on the basic salary. The provision is expected to be realised within the following financial year as employees utilise their leave.		
The provision for the performance bonus is based on 8% of the total cost to company.		
The provision for interest on tenants' deposits is computed from the lease date to the date of vacating the unit.		
14. Tenants deposits		
Deposits charged	5,375,606	5,241,915
The tenants' deposits consist 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.		
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Unspent grant	-	20,862,707
Movement during the year		
Opening balance	20,862,707	20,862,707
Income recognition during the year- GPF	(4,271,706)	-
Income recognition during the year- SHRA	(16,591,001)	-
	-	20,862,707
The entity fulfilled the conditions of the grant received from Gauteng Partnership Fund and Social Housing Regulatory Authority. The grant has been recognised as income during the period under review.		
16. Deferred tax		
Deferred tax liability		
Opening balance	(41,654,198)	(42,886,561)
Deferred tax movement from reversals of temporary differences	3,542,390	1,232,363
Total deferred tax (liability)/asset	(38,111,808)	(41,654,198)
Reconciliation of deferred tax liability.		
At beginning of year	(41,654,198)	(42,886,562)
Leave Provision	(1,672)	4,042
Performance bonus	250,455	(355,860)
Investment property-Building: Pharoe Park	108,686	108,686
Investment property-Building: Germiston Phase II	(352,382)	(352,382)

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Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
16. Deferred tax (continued)		
Investment Property - Buildings: Chris Hani	(2,318,205)	438,436
Property plant and equipment	17,094	64,137
Investment property-Building: Delville Ext 9	375,878	375,878
Operating lease liability	(15,182)	(15,586)
Provision for bad debts	5,477,718	965,013
	(38,111,808)	(41,654,198)

Recognition of deferred tax liability

The entity has a net deferred tax liability

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

17. Contributions from owners

Authorised

1000 Ordinary shares of par value of R1 each	1,000	1,000
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Issued

100 Ordinary Shares Issued to Ekurhuleni Metropolitan Municipality	100	100
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The Ekurhuleni Metropolitan Municipality owns 100% of the entity's shares.

18. Revenue

Rental from investment properties	42,121,638	40,415,154
Rental from retail property	27,372	54,505
Recoveries	6,304,406	5,662,454
Other income	1,005,096	6,837,254
Interest received	4,943,296	3,005,792
Government grants & subsidies	22,672,053	70,244,808
Other grants	20,862,707	-
	97,936,568	126,219,967

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

Rental from investment properties	42,121,638	40,415,154
Rental from retail property	27,372	54,505
Recoveries	6,304,406	5,662,454
Other income	1,005,096	6,837,254
Interest received	4,943,296	3,005,792
	54,401,808	55,975,159

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

Transfer revenue

Government grants & subsidies- City of Ekurhuleni	22,672,053	70,244,808
Other grants	20,862,707	-
	43,534,760	70,244,808

Other grants consists of conditional grants recognised as income in the current financial year (SHRA: R16, 591,001 and Gauteng Partnership Fund: R4,271,706).

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
19. Recoveries		
Refuse	1,817,885	1,694,188
Damage and repairs	64,044	74,243
Sewerage	1,387,847	1,257,074
Water	3,034,630	2,636,949
	6,304,406	5,662,454

20. Other income		
Lease administration fees	9,627	25,585
Letters of demand fees	117,320	81,955
Tender administration fees	110,870	77,609
SARS Interest earned and penalties refunded	52,229	6,652,105
Insurance and other refunds	490,285	-
Other income-Tenants	224,765	-
	1,005,096	6,837,254

21. Interest received		
Bank	1,643,101	1,694,982
Interest charged on overdue Accounts-Tenants	3,300,195	1,310,810
	4,943,296	3,005,792

The amount included in Investment revenue arising from exchange transactions amounted to R 1,643,101 (30 June 2019) :R1,694,982.

22. Employee related costs		
Basic	18,674,738	17,466,398
Performance bonus	894,483	(1,270,930)
Medical aid - company contributions	1,077,413	1,010,229
UIF	57,219	57,896
SDL	191,608	224,718
Leave pay provision charge	439,878	659,938
Provident fund	1,662,950	1,458,669
Cellphone allowance	122,115	136,300
Overtime payments	173,780	290,103
13th Cheques	866,313	920,908
Travel allowance	368,400	231,900
	24,528,897	21,186,129

REMUNERATION OF CHIEF EXECUTIVE OFFICER

Basic	1,804,382	1,448,381
Contribution to Medical and Pension Fund	215,618	156,454
Travel allowance	180,000	-
Leave pay	-	63,856
Other	-	4,600
	2,200,000	1,673,291

REMUNERATION OF CHIEF FINANCIAL OFFICER

GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
22. Employee related costs (continued)		
Basic	1,584,592	1,191,901
Travel Allowance	-	60,000
Contributions to Medical and Pension Funds	140,408	130,026
Leave pay	47,070	359,918
Other	-	6,900
	1,772,070	1,748,745

REMUNERATION OF COMPANY SECRETARY

Basic	825,401	1,033,296
Contributions to Medical and Pension Funds	90,920	112,444
Leave pay	120,597	-
Other	10,350	13,800
	1,047,268	1,159,540

NON-EXECUTIVE DIRECTORS' FEES

F Segole	-	141,376
K Maithufi	-	120,000
L Netshitenzhe	436,070	504,768
M Ngobeni	-	120,000
T Limako	406,145	485,024
A Makhado	-	120,000
HT Thopola	359,117	406,144
T Vukea	423,245	427,520
Z Nkamana	504,473	591,848
B Moholo	641,904	358,336
	2,770,954	3,275,016

The basis of remuneration of non-executive directors was aligned to the remuneration rates approved by the CoE effective from 01 December 2018.

23. Finance costs and penalties

Interest and penalties	55,452	169,068
Interest paid on tenant's deposits	13,320	189,146
	68,772	358,214

24. Impairment-Consumer Debtors

Contributions to debt impairment provision	26,084,370	4,595,295
Bad debts written off - Consumer debtors	1,189,864	5,486,615
	27,274,234	10,081,910

25. Repairs and maintenance

Contractors

Maintenance of Buildings and Facilities	4,216,746	5,618,616
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GERMISTON PHASE II HOUSING COMPANY (SOC) LTD t/a EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
26. General expenses		
Advertising	170,408	65,870
Assessment rates & municipal charges	642,137	630,637
Auditors remuneration	884,635	790,786
Bank charges	501,959	498,470
Cleaning	4,615,586	4,085,628
Consulting and professional fees	847,069	1,136,034
Debt collection	43,907	56,565
Insurance	745,307	408,060
Conferences and seminars	162,144	61,064
Motor vehicle expenses	38,204	64,230
Pest control	25,424	-
Placement fees	40,564	331,559
Printing and stationery	298,815	490,110
Security	5,691,490	5,516,858
Software licenses	380,300	631,708
Telephone and fax	731,233	638,055
Travel and accommodation- local	74,174	180,695
Electricity	50	2,139
Sewerage and waste disposal	563,249	616,715
Water	6,020,570	3,221,061
Refuse	1,200,665	1,952,808
Bursaries	44,691	58,340
Catering and Refreshments	84,308	101,010
Other expenses	1,344,717	1,146,265
	25,151,606	22,684,667
27. Taxation		
Major components of the tax expense		
Deferred Tax	(3,542,390)	(1,232,363)
Local income tax - current period	3,666,607	15,412,199
	124,217	14,179,836
28. Taxation paid		
Normal Income Tax paid - Current year	6,110,141	15,393,741
Normal Income Tax paid - Prior year	-	24,621,716
Penalties and interest paid - Current year	-	3,345,855
Penalties and interest reversals received - Prior year	(4,104,403)	(3,257,698)
Transfer duty paid	9,862,511	-
	11,868,249	40,103,614
29. Cash (used in) generated from operations		
Surplus	7,261,068	42,475,011
Adjustments for:		
Depreciation and amortisation	5,845,201	5,383,076
Loss on sale of assets and liabilities	27,572	355,386
Debt impairment	27,274,234	10,081,910
Movements in operating lease assets and accruals	(54,221)	(55,662)
Movement in provisions	1,039,680	(1,095,386)
Movement in deferred tax	(3,542,390)	(1,232,363)

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Notes to the Annual Financial Statements

	2020	2019 Restated*
29. Cash (used in) generated from operations (continued)		
Movement in tax (securities transfer duty payable)	(8,223,864)	(31,965,316)
Impairment on loans	31,348	84,000
Changes in working capital:		
Receivables from exchange transactions	3,325,017	(2,437,924)
Consumer debtors	(23,063,495)	(16,073,538)
Trade and other payables from exchange transactions	(6,190,525)	3,576,919
Unspent conditional grants and receipts	(20,862,707)	-
	(17,133,082)	9,096,113

30. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	884,635	790,786
Amount paid - current year	(884,635)	(790,786)
	-	-

VAT

VAT (payable) receivable	(88,842)	35,608
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Supply chain management regulations

Paragraph 36 (1) (a) of the Municipal Supply Chain Management Regulations states that a Supply Chain Management policy may in certain circumstances, allow the accounting officer to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process. The regulations further states that the Accounting Officer must record the reasons for any deviations and report them to the next meeting of the board and include as a note to the annual financial statements.

During the 2019 financial year, expenditure of R283 813 was incurred for the refurbishment of burnt offices at the EHC office premises. The cleaning and refurbishment services were urgently required due to health hazards caused by the fire. The reasons for the deviations were documented and reported to the board.

Incident

Appointment services to clean and refurbish EHC burnt office	-	283,813
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31. Fruitless and wasteful expenditure

Opening balance as previously reported	1,899,679	8,260,960
Add: Interest on late payment of 2019 first provisional tax	-	16,961
Add: Interest on SARS EMP501 variances	545	-
Add: Interest on overdue account-Provident fund	54,907	-
Less: Overprovision of 2018 interest and penalties	-	(658,372)
Less: Amount ratified - current year	(16,961)	-
Less: 2018 interest and penalties recovered in current year	-	(2,462,172)
Less: 2017 interest and penalties recovered in current year	-	(3,257,698)
Closing balance	1,938,170	1,899,679

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31. Fruitless and wasteful expenditure (continued)

Interest and penalties on the underpayment of provisional tax payment relates to a change in the treatment of grants effective 01 January 2017, whereby all capital grants are taxable. The Chris Hani and Delville Ext 9 properties were transferred to EHC in April 2017 and October 2017 respectively, which required EHC to account for tax on the grant as per the new tax regulation. EHC had incurred interest and penalties in the respective years due. An amount of R3, 257, 698 was recovered in respect of 2016/17 SARS penalties, while R2, 462, 172 was recovered for 2017/18 financial year. MPAC conducted an investigation and reported that the expense is recommended for condonment with no consequences for the officials. The entity is awaiting council resolution thereof.

Interest and penalty of R790 798 were charged and paid to SARS in the 2018/19 financial year, due to late payment of the 2019 first provisional tax. The entity requested SARS to reverse interest and penalties. SARS reversed R773 837. R16, 961 was recommended for ratification by MPAC and Council ratified in March 2020 .

Interest of R545 was incurred due to a difference between EMP501 and declarations submitted to SARS in the EMP201 during the tax year. Interest of R54,907 was charged on late payment of Provident fund accounts. The interest is inclusive of prior financial years. The entity is in the process of investigating these items with the necessary consequence management to follow.

32. Irregular expenditure

Opening balance	15,813,301	12,615,164
Add: Irregular Expenditure - current year relating to prior periods	3,741,814	3,198,137
Add: Irregular Expenditure - current	156,000	-
Add: Irregular Expenditure - current	378,961	-
Closing balance	20,090,076	15,813,301

A contract awarded in the 2018 financial year for Bigen Africa for the amount of R3, 983,118 was investigated and recommended that the expense incurred was not irregular. The entity is awaiting the council resolution.

During the 2018 financial year a contract awarded based on points given for criteria differed from those stipulated in the original invitation as required by SCM regulation 21(b) and 28 (1)(a). An amount of R3, 198,137 was incurred and a further amount of R3, 741, 814 was incurred in the current period relating to the same contract. The contract terminated in the current year. Disciplinary action was instituted. The disciplinary process was concluded with a written warning. The entity will obtain council resolution to ratify the expenditure.

During the financial year the entity received services from an attorney of R156 000 for a legal opinion on the salary adjustments of executives. The acquisition of this service was not in terms of the Municipal Finance Management Act and SCM regulations.

A long term contract awarded in the current financial year for security services was advertised for a period of less than 30 days in contravention with the MFMA, SCM Regulations 22 (1) (b). An amount of R378, 961 was incurred in the current financial year.

33. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling entity	City of Ekurhuleni
Other members of the group	Brackpan Bus Company (SOC) Limited Lethabong Housing Institute (SOC) NPC (in liquidation) East Rand Water Care Company (SOC) NPC
Members of key management	B Molefe (Chief Executive Officer) D Pertab (Chief Financial Officer) Adv Kgabo Sebola (Company Secretary) - resigned 31 March 2020)

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33. Related parties (continued)		
Refer to note 22 for remuneration of members of key management.		
The entity received services in kind from its parent municipality. The services were:		
- Internal audit functions		
- Audit Committee functions		
- Risk Committee functions		
- Information Technology services		
Related party balances		
Loan accounts - Owing (to) by related parties		
Lethabong Housing Institute (SOC) Limited (in liquidation)	304,652	336,000
Amounts included in Trade receivable (Trade Payable) regarding related parties		
City of Ekurhuleni	464,226	7,935,347
City of Ekurhuleni	(12,898)	(258,065)
Receivable amount of R464, 226 (2018/19: R771, 158) relates to municipal rates accounts held with the City of Ekurhuleni. In addition an amount of R- (2018/19: R3, 161,000 relating to capital grant is receivable. R- (2018/19: R4, 003,189) for the Clayville development project included in the R7, 935,347 million is receivable from the City of Ekurhuleni which is not accounted in the trade and other receivables as EHC is acting as an implementation agent for the project.		
Amounts payable is R12, 898 (2018/19: R258, 065) relates to the municipal rates accounts held with the City of Ekurhuleni.		
Related party transactions		
Services provided by related parties		
City of Ekurhuleni	8,426,671	6,423,360
Grants received from related parties		
City of Ekurhuleni	(22,800,000)	(70,317,776)
Other grants received		
City of Ekurhuleni	-	(4,803,827)

Other grants received R- (2018/19: R4,803,827) relates to funds received for Clayville development project that EHC is acting as the implementation agent.

34. Principal agent arrangement

In the 2019 financial year the entity entered into a principal agent relationship with the City of Ekurhuleni. The entity is an implementation agent in 2 property developments as detailed below:

The Clayville Ext 45 development of 452 social rental multi-storey units. The CoE has funded R65 million and SHRA has approved R122.9 million to be funded through the consolidated capital grant. As at the end of June 2020 the capital expenditure incurred on the life to date of the project is R31.8 million. The anticipated completion date is September 2021.

The Kempton Park, Long Street development of 84 social housing units. The CoE has funded R38.6 million. As at the end of June 2020 the capital expenditure incurred on the life to date of the project is R3.2 million. The anticipated completion date is September 2021.

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35. Risk management

Liquidity risk

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

The entity manages its liquidity risk as follows:

1. Performing detail cash forecast, which takes into account short term obligations that will fall due.
2. Continuous review of future commitments and available credit facility.

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

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	2,475,736	-	-	-
Provisions	2,938,565	-	-	-
Tenants deposits	5,375,606	-	-	-
At 30 June, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	10,908,106	9,954,601	-	-
Trade and other payables	8,679,589	-	-	-
Provisions	1,898,885	-	-	-
Tenants deposits	5,241,915	-	-	-

Interest rate risk

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

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

Credit risk

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

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

Credit quality of consumer debtors

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

- (i) Category A - the risk of defaulting is low and the probability of defaulting is also low,
- (ii) Category B and C - the risk of defaulting is neutral and the probability of defaulting is also neutral.
- (iii) Category D,E and F - the risk of defaulting is high and probability of them defaulting is also high.

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

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	2020	2019 Restated*
36. Financial instruments disclosure		
Categories of financial instruments		
30 June 2020		
Financial assets		
	At amortised cost	
Loans to economic entities	304,652	
Trade and other receivables from exchange transactions	1,540,989	
Consumer debtors	3,409,375	
Cash and cash equivalents	21,303,243	
Deferred operating lease	40,892	
	26,599,151	
Financial liabilities		
	At amortised cost	
Trade and other payables from exchange transactions	2,475,736	
Tenants deposits	5,375,606	
	7,851,342	
30 June 2019		
Financial assets		
	At amortised cost	
Loans to economic entities	336,000	
Trade and other receivables from exchange transactions	4,741,556	
Consumer debtors	7,620,115	
Cash and cash equivalents	43,538,005	
	56,235,676	
Financial liabilities		
	At amortised cost	
Current tax payable	5,002,730	
Trade and other payables from exchange transactions	8,666,260	
Tenants deposits	5,241,915	
Unspent conditional grant	20,862,707	
Deferred operating lease	13,329	
	39,786,941	

37. Operating lease

The entity rents out housing units in accordance with Social Housing Regulatory Authority guidelines. The operating lease agreements are entered into for a period of 12 months, subject to a renewal there after. The annual rental increase is subject to the approval of the board and guidance of SHRA. Based on the contingency of the renewal and the increase, the entity has not recognised revenue on a straight line basis over the lease term as the actual invoicing is representative of the time pattern in which the benefit is derived from the leased asset.

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38. Budget differences

Changes from the approved budget to the final budget

The changes between the approved and final budget are due to the adjustment budget approved in terms of section 28 of the MFMA. The final budget as indicated in the statement of comparison of budget and actual is therefore the approved budget for the year.

The difference between the original budget as approved by the City of Ekurhuleni and the original budget disclosed in the Statement of Comparison of Budget and Actuals is due to the re-classification between budget items in line with the expenditure classification. The table below indicates the reconciliation of budget items:

Budget line item	Original budget	Entity's reallocation Adjustments	Original budget-adjusted
Employee costs	28,043,855	230,340	28,274,195
Non-Executive Directors' Fees	3,300,000	-	3,300,000
Contracted Services	14,820,022	-	14,820,022
Operational Costs	13,249,782	(182,537)	13,067,245
Operating lease	1,284,155	-	1,284,155
Impairment of Consumer Debtors	6,046,258	(47,803)	5,998,455
Depreciation and Amortisation	5,021,243	-	5,021,243
	71,765,315	-	71,765,315

39. Prior period errors

Accumulated depreciation has been restated due to assets that were fully depreciated in the 2019 financial year that are still in use in the current year. Depreciation was reduced by R6,188 as detailed in the table below, incorporating the deferred tax adjustment of R1,733.

Interest income in the cash flows from operating activities previously included accrued interest. This has now being adjusted against receipts from customers.

In the 2017 financial year, the entity recognized an accrual for the transfer duty of the Chris Hani property as a tax expense. The tax expense that was presented in retained earnings has been reallocated to investment property of R9, 862, 511.

Note 22, Disclosure for the remuneration of Executive Directors have been restated. In 2019 financial year, contributions to UIF was included in the remuneration of Executive Directors. This has now been excluded. The total remuneration was reduced by R1, 190 for the Chief Executive Officer and Chief Financial Officer and R1, 784 for the Company Secretary.

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

Statement of financial position	Refer to Note	Balance as previously reported	Restated balance	Adjustment
Investment property- Cost (30 June 2018)	7	217,061,058	226,923,569	9,862,511
Accumulated surplus (30 June 2018)		(124,702,484)	(134,564,995)	(9,862,511)
Accumulated depreciation: IT Equipment (30 June 2019)	8	(638,722)	(634,319)	4,403
Accumulated depreciation: Office Equipment (30 June 2019)	8	(225,943)	(225,713)	230
Accumulated depreciation: Furniture/Fittings (30 June 2019)	8	(372,618)	(371,063)	1,555
Deferred tax	16 & 29	(41,652,465)	(41,654,198)	(1,733)
		49,468,826	49,473,281	4,455

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		2020	2019 Restated*	
39. Prior period errors (continued)				
Statement of financial performance	Refer to Note	Balance as previously reported	Restated balance	Adjustment
Depreciation and amortisation (30 June 2019)	8 & 29	5,389,264	5,383,076	(6,188)
Taxation	27 & 29	14,178,103	14,179,836	1,733
		19,567,367	19,562,912	(4,455)
Cash Flow Statement		Balances as previously reported	Restated balance	Adjustment
Customers		25,119,196	25,206,645	87,449
Interest Income		3,005,792	2,918,343	(87,449)
		28,124,988	28,124,988	

40. Change in estimate

Property, plant and equipment

The useful life of certain computer equipment, Furniture, office equipment has been adjusted in the current period by 2 years based on the condition and use of the assets. A palisade fence in other equipment was adjusted by 3 years effective from 01 July 2019. This resulted in a reduction in the depreciation charged for the current period of R 29,741

41. Covid-19

During the financial year the lockdown and COVID-19 crisis has negatively impacted the entity. The entities collections have reduced significantly which has resulted in the increase in provision for doubtful debts of R27, 274, 234. This impacted the going concern assumption of the entity. The entity is dependent on the grant of R16 million for the 2021 financial year. Furthermore the entity is conducting a tenant engagement and introduced payment incentives aimed at enhancing collections. The entity is curtailing activities based on priority and effectively managing working capital.

The entity had incurred expenses in the current year of R146, 834 relating to incremental cleaning and protection equipment for employees. The entity expects to incur the following cost in the 2021 financial year:

Capital expenditure to enhance technological capacity	R500 000
Incremental cleaning and protective equipment	R734,170