



# **Ekurhuleni Housing Company**

**GERMISTON PHASE II HOUSING COMPANY SOC LTD TRADING  
AS EKURHULENI HOUSING COMPANY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## General Information

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<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Property development and management of social and rental housing stock
<b>Directors</b>	ND Siwahla-Madiba (Non-Executive Director- Chairperson) T Hanganana (Non-Executive Director) L Mosehla (Non-Executive Director) F Dikgale (Non-Executive Director) D Hlawula (Non-Executive Director) GB Molefe (Executive Director - Chief Executive Officer) D Pertab (Executive Director - Chief Financial Officer) T Limako (Non-Executive Director): Term ended 31 October 2021 HT Thopola (Non-Executive Director): Term ended 31 October 2021 B Moholo (Non-Executive Director- Chairperson)Term ended 31 October 2021 T Vukeya (Non-Executive Director): Term ended 31 October 2021 L Netshitenzhe (Non-Executive Director): Term ended 31 October 2021
<b>Registered office</b>	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale
<b>Business address</b>	Hanover building Cnr. Hendrik Potgieter & 7th Avenue Edenvale
<b>Postal address</b>	P O Box 1245 Germiston 1400
<b>Controlling municipality</b>	City of Ekurhuleni Domiciled in South Africa
<b>Bankers</b>	ABSA Bank Limited Corporate and Investment Banking
<b>Auditors</b>	Auditor - General South Africa 39 Scott Street Houghton
<b>Acting Company Secretary</b>	Busisiwe Baloyi
<b>Company registration number</b>	2000/007937/07
<b>Preparer</b>	The annual financial statements were internally compiled by: Thando Mkhabela Acting Chief Financial Officer

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

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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
NPC	Non-Profit Company
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 trading as EKURHULENI HOUSING COMPANY**

Annual Financial Statements for the year ended 30 June 2022

## **Directors' Responsibilities and Approval**

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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 the EHC as at 30 June 2022 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 forecast for the next financial year ending 30 June 2023 and, in the light of this review, combined with the information and explanations given by management, current financial position, liquidity and solvency assessment of the entity, they are satisfied that the EHC has access to adequate resources to continue in operational existence for the foreseeable future, although this is sustainable through continued grant funding from City of Ekurhuleni and SHRA. The directors are concerned about the current trend in bad debt impairment which is showing a rapid increase arising from a significant decrease in collection rate. The EHC received support in the form of grant funding from the City of Ekurhuleni and SHRA to sufficiently cover the increased bad debt impairment. The entity had to develop a turnaround strategy, which was formulated with the engagement of SHRA and the City of Ekurhuleni.

The EHC is 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 EHC's executive management as well as the internal audit function, who assures the controls of the EHC.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the directors on 31 August 2022 and were signed on its behalf by:

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**Dr. ND Siwahla-Madiba (Non-Executive Director)**  
Chairperson - Board of Directors

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**GB Molefe (Executive Director)**  
Chief Executive Officer

**Wednesday, 31 August 2022**

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Directors' Report

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The directors submit their report for the year ended 30 June 2022.

### 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 management of social and rental housing stock and operates as a municipal entity under the laws of South Africa.

### 3. Going concern

The shareholder approved grants of R16,036,000 to the entity for the 2021/2022 financial year. During the reporting period, the entity claimed R16,036,000 of which R120, 125 is accounted as VAT output in the Statement of Financial Position. A grant of R15,915,875 is therefore disclosed in the Statement of Financial Performance. A grant of R17, 808, 400 has been approved for the 2022/2023 financial year.

At 30 June 2022, the entity had an accumulated surplus of R198 229 490 and that the entity's total assets exceed its liabilities by R198 229 590.

The entity has assessed its cash forecast, financial position, accumulated surplus, solvency and liquidity, the Board of Directors are of the view that the entity will continue as a going concern.

The financial statements are prepared on the going concern basis.

### 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 annual financial statements.

### 5. Accounting policies

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

### 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 trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Directors' Report

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### 8. Directors

The outgoing board of directors' term ended on the 31 October 2021. The CoE appointed a new board of directors from 01 March 2022.

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

Name	Nationality	Date appointed
ND Siwahla-Madiba (Non-Executive Director-Chairperson)	South Africa	01 March 2022
T Hangana (Non-Executive Director)	South African	01 March 2022
L Mosehla (Non-Executive Director)	South African	01 March 2022
F Dikgale (Non-Executive Director)	South African	01 March 2022
D Hlawula (Non-Executive Director)	South African	01 March 2022
GB Molefe (Executive Director - Chief Executive Officer)	South African	01 March 2022
D Pertab (Executive Director - Chief Financial Officer)	South African	01 May 2019
T Limako (Non-Executive Director): Term ended 31 October 2021	South African	01 March 2019
HT Thopola (Non-Executive Director): Term ended 31 October 2021	South African	01 November 2018 to 31 October 2021
B Moholo (Non-Executive Director-Chairperson)Term ended 31 October 2021	South African	01 November 2018 to 31 October 2021
T Vukeya (Non-Executive Director): Term ended 31 October 2021	South African	01 November 2018 to 31 October 2021
L Netshitenzhe (Non-Executive Director): Term ended 31 October 2021	South African	01 November 2018 to 31 October 2021

### 9. Secretary

The entity had a company secretary until his resignation at the end of October 2021. The recruitment process is still in progress. Busisiwe Baloyi is the acting company secretary.

The acting company secretary of the entity is Busisiwe Baloyi of:

Business address

Hanover building  
Cnr Hendrik Potgieter & 7th Avenue  
Edenvale  
1400

Postal address

P O Box 1245  
Germiston  
1400

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Directors' Report

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### 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 total compliance with the 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.

During the review of the annual financial statements, the board noted that the entity had an operating lease agreement for office rental for a period of 5 years. The lease was extended for a period of six (6) months and was further extended on a month-to-month basis during the current financial year. The amount spent is more than the allowed variation of 15%. Irregular expenditure has thus been incurred for the period under review as disclosed in note 32 of the financial statements. The expenditure is expected to continue post 30 June 2022, pending the procurement process for office space.

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

#### Board of directors

The Board:

- retains full control over the entity, its plans and strategy;
- 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 5 non-executive independent directors and 2 executive directors.

#### Remuneration

The remuneration of the Executive Directors and Non-Executive Directors' fees are determined by the shareholder. The remuneration of key management and directors' fees are disclosed in note 33 and 22 of the annual financial statements.

#### Board meetings

The board had 4 ordinary board meetings and 1 special board meeting 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 City of Ekurhuleni domiciled in South Africa.

### 12. Bankers

ABSA Bank Limited.

# **GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY**

Annual Financial Statements for the year ended 30 June 2022

## **Directors' Report**

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### **13. Auditors**

Auditor-General South Africa.



# **GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY**

Annual Financial Statements for the year ended 30 June 2022

## **Company Secretary's Certification**

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### **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.

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Busisiwe Baloyi  
Acting Company Secretary

Johannesburg  
Wednesday, 31 August 2022

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Current tax receivable	3	452 663	2 461 835
Deferred operating lease	4	-	99 451
Receivables from exchange transactions	5	1 651 488	1 237 880
VAT receivable	6	47 083	48 581
Consumer debtors	7	5 203 712	4 444 389
Cash and cash equivalents	8	21 120 795	28 457 776
		<b>28 475 741</b>	<b>36 749 912</b>
<b>Non-Current Assets</b>			
Investment property	9	225 730 041	211 437 708
Property, plant and equipment	10	6 743 933	8 614 450
Intangible assets	11	94 683	-
		<b>232 568 657</b>	<b>220 052 158</b>
<b>Total Assets</b>		<b>261 044 398</b>	<b>256 802 070</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	12	22 586 222	15 356 000
Provisions	13	4 973 198	4 469 709
Tenants Deposits	14	5 657 795	5 567 361
		<b>33 217 215</b>	<b>25 393 070</b>
<b>Non-Current Liabilities</b>			
Unspent conditional grants and receipts	15	4 228 096	3 784 768
Deferred tax	16	25 369 497	31 974 610
		<b>29 597 593</b>	<b>35 759 378</b>
<b>Total Liabilities</b>		<b>62 814 808</b>	<b>61 152 448</b>
<b>Net Assets</b>		<b>198 229 590</b>	<b>195 649 622</b>
Contributions from owners	17	100	100
Accumulated surplus		198 229 490	195 649 522
<b>Total Net Assets</b>		<b>198 229 590</b>	<b>195 649 622</b>

\* See Note 35

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Rental from investment properties	18	43 172 222	42 014 067
Retail rent		180 000	45 000
Recoveries	19	6 467 822	6 338 252
Other income	20	266 063	359 424
Interest received	21	1 064 822	803 833
<b>Total revenue from exchange transactions</b>		<b>51 150 929</b>	<b>49 560 576</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	18	15 889 727	15 902 330
Other grants	18	26 931 890	28 637 251
<b>Total revenue from non-exchange transactions</b>		<b>42 821 617</b>	<b>44 539 581</b>
<b>Total revenue</b>		<b>93 972 546</b>	<b>94 100 157</b>
<b>Expenditure</b>			
Employee related costs	22	(23 460 673)	(23 959 118)
Non-Executive Directors' fees	22	(1 694 263)	(2 184 569)
Depreciation, amortisation and impairments	10&9&11	(6 812 810)	(6 542 351)
Finance costs and penalties	23	(693 965)	(150 421)
Lease rentals on operating lease		(910 014)	(731 989)
Impairment of Consumer Debtors	24	(32 186 981)	(25 490 901)
Repairs and maintenance	25	(5 677 656)	(4 007 859)
Loss on scrapped assets	10	(27 845)	(320 514)
General Expenses	26	(26 762 029)	(24 584 238)
<b>Total expenditure</b>		<b>(98 226 236)</b>	<b>(87 971 960)</b>
<b>(Deficit) surplus before taxation</b>		<b>(4 253 690)</b>	<b>6 128 197</b>
Taxation	27	(6 833 658)	(5 198 131)
<b>Surplus for the year</b>		<b>2 579 968</b>	<b>11 326 328</b>

\* See Note 35

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Statement of Changes in Net Assets

Figures in Rand	Contributions from owners	Accumulated surplus	Total net assets
<b>Balance at 01 July 2020</b>	<b>100</b>	<b>184 323 194</b>	<b>184 323 294</b>
Changes in net assets			
Surplus (Deficit) for the period	-	11 326 328	11 326 328
Total changes	-	11 326 328	11 326 328
Opening balance as previously reported	100	195 628 270	195 628 370
Adjustments			
Correction of errors	-	21 252	21 252
<b>Restated* Balance at 01 July 2021 as restated*</b>	<b>100</b>	<b>195 649 522</b>	<b>195 649 622</b>
Changes in net assets			
Surplus (Deficit) for the period	-	2 579 968	2 579 968
Total changes	-	2 579 968	2 579 968
<b>Balance at 30 June 2022</b>	<b>100</b>	<b>198 229 490</b>	<b>198 229 590</b>
Note(s)	17		

\* See Note 35

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
SARS tax refund		2 287 680	-
Customers		10 548 177	16 530 145
Grants		43 264 945	48 324 349
Interest income		609 905	557 845
Other receipts		6 683 922	6 643 530
		<u>63 394 629</u>	<u>72 055 869</u>
<b>Payments</b>			
Employee related costs		(24 404 564)	(24 915 120)
Suppliers		(27 059 921)	(16 246 838)
Finance costs and penalties		(402)	(9 797)
Taxation paid	28	-	(596 012)
		<u>(51 464 887)</u>	<u>(41 767 767)</u>
<b>Net cash flows from operating activities</b>	29	<b><u>11 929 742</u></b>	<b><u>30 288 102</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(488 639)	(4 088 179)
Purchase of investment property	9	(18 759 265)	(19 506 766)
Purchase of other intangible assets	11	(109 250)	-
Proceeds from loans from economic entities	35	-	269 620
<b>Net cash flows from investing activities</b>		<b><u>(19 357 154)</u></b>	<b><u>(23 325 325)</u></b>
<b>Cash flows from financing activities</b>			
Receipts/(repayment) of deposits charged		90 431	191 756
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(7 336 981)</b>	<b>7 154 533</b>
Cash and cash equivalents at the beginning of the year		28 457 776	21 303 243
<b>Cash and cash equivalents at the end of the year</b>	8	<b><u>21 120 795</u></b>	<b><u>28 457 776</u></b>

\* See Note 35

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actuals

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>30 June 2022</b>											
<b>Financial Performance</b>											
Interest received	574 491	-	574 491	-	-	574 491	1 064 822	-	490 331	185 %	185 %
Transfers recognised	16 880 000	(844 000)	16 036 000	-	-	16 036 000	15 889 727	-	(146 273)	99 %	94 %
Other grants and own revenue	58 065 914	109 338 244	167 404 158	-	-	167 404 158	77 017 997	-	(90 386 161)	46 %	133 %
<b>Total revenue (Excluding capital transfers and contributions)</b>	<b>75 520 405</b>	<b>108 494 244</b>	<b>184 014 649</b>	<b>-</b>	<b>-</b>	<b>184 014 649</b>	<b>93 972 546</b>	<b>-</b>	<b>(90 042 103)</b>	<b>51 %</b>	<b>124 %</b>
Employee costs	(28 398 390)	3 133 471	(25 264 919)	-	-	(25 264 919)	(23 460 673)	-	1 804 246	93 %	83 %
Remuneration of Non-Executive Directors	(2 097 900)	-	(2 097 900)	-	-	(2 097 900)	(1 694 263)	-	403 637	81 %	81 %
Debt impairment	(4 886 680)	(25 842 149)	(30 728 829)	-	-	(30 728 829)	(32 186 981)	-	(1 458 152)	105 %	659 %
Depreciation and amortisation	(7 137 282)	-	(7 137 282)	-	-	(7 137 282)	(6 812 810)	-	324 472	95 %	95 %
Finance charges	-	(526 812)	(526 812)	-	-	(526 812)	(693 965)	-	(167 153)	132 %	132 %
Other expenditure	(31 239 653)	(4 614 219)	(35 853 872)	-	-	(35 853 872)	(33 377 544)	-	2 476 328	93 %	107 %
<b>Total expenditure</b>	<b>(73 759 905)</b>	<b>(27 849 709)</b>	<b>(101 609 614)</b>	<b>-</b>	<b>-</b>	<b>(101 609 614)</b>	<b>(98 226 236)</b>	<b>-</b>	<b>3 383 378</b>	<b>97 %</b>	<b>133 %</b>
<b>Surplus/(Deficit)</b>	<b>1 760 500</b>	<b>80 644 535</b>	<b>82 405 035</b>	<b>-</b>	<b>-</b>	<b>82 405 035</b>	<b>(4 253 690)</b>	<b>-</b>	<b>(86 658 725)</b>	<b>(5)%</b>	<b>(242)%</b>
Taxation	1 760 500	-	1 760 500	-	-	1 760 500	(6 833 658)	-	(8 594 158)	(388)%	- %
<b>Surplus/(Deficit) for the year</b>	<b>-</b>	<b>80 644 535</b>	<b>80 644 535</b>	<b>-</b>	<b>-</b>	<b>80 644 535</b>	<b>2 579 968</b>	<b>-</b>	<b>(78 064 567)</b>	<b>3 %</b>	<b>DIV/0 %</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

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

#### 1. Interest received

The budget for interest received was R574, 491, the actual interest received was R1 064 822. The variance of 185% (R490 331) was mainly due to interest earned from transfer duty to the amount of R416 182 held by transferring attorneys for Erf 808. In addition, interest on investment accounts for capital projects was not utilised as planned due to the project being on hold pending appointment of contractors for Clayville project.

#### 2. Transfers recognised

The original budget was R16,9 million from the CoE operational grant, while the actual recognised was R15,9 million. The CoE operational grant was reduced by R844, 000 because of the 5% budget cuts. Furthermore, the actual amount reported was reduced by vat recognised on an apportionment method of R120,125. The actual grant recognised as income is thus less than the original budget by 6%.

#### 3. Other grants and own revenue

The original budget was R58 million. The budget was increased by R109 million during the year. The increase consists of R117,6 million from SHRA grants of which, R37 million was budgeted as operational grant and R80,6 million as capital grant. In addition, the revenue from rental of facilities was reduced by R8,5 million due to revenue that was not recognised from Chris Hani phase 2 building. Tenanting on the Chris Hani phase 2 building only started in May 2022 and the building was not fully occupied at the end of the year.

The actual revenue consists of the R18, 7 million of the SHRA conditional grant recognised as revenue that was spent on Clayville project during the year and R8 million received from the SHRA for meeting the conditions precedent in the Chris Hani phase 2 project. Actual from own revenue relating to rental of facilities amounting to R50 million was recognised.

The final budget was therefore R167 million, and the actual revenue was R77 million. The variance of R90 million is mainly due to the SHRA grant that was not received as planned. The Chris Hani project is still in the process of financial closure which should have released additional grant. The Clayville project is behind schedule as the two contractors appointed for the project were terminated due to poor performance on the project and the second contractor went into liquidation. The entity is in the process of appointing new contractors.

#### 4. Employee Costs

The original budget was R28 million. During the adjustment budget the entity reconciled the budget to the current employee costs and reduced the budget by R3 million. 92% of the final budget was spent. The budget was therefore more than the expenditure by R1,9 million. This is mainly due to positions that were vacant during the period under review. 4 vacant positions including the Company Secretary position are still vacant the annual increase for executive management was not implemented.

#### 5. Remuneration of Non-Executive Directors

The original and final budget was R2,1 million, while the actual expenditure was R1,7 million. 81% of the final budget was spent. The budget was therefore more than the expenditure by R403, 637. The actual expenditure is based on the number of meetings attended. The new board of directors was appointed on the 01 March 2022. The term for the previous board ended in October 2021.

#### 6. Debt impairment

The original budget was R4,9 million. The budget was increased during the year by R25,8 million due to rapid increase in the provision for bad debt. 105% of the final budget was spent. The actual expenditure therefore exceeded the budget by 5% (R1,5 million). This is due to a decrease in collection rate. Collection is negatively affected by rent payment boycott by tenants. The entity is following debt collection procedures and systems to improve collection rate.

# **GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY**

Annual Financial Statements for the year ended 30 June 2022

## **Statement of Comparison of Budget and Actual Amounts**

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### **7. Finance charges.**

The budget for finance charges was R526, 812. The actual expenditure was R693, 965. 132% of the budget was spent. The budget was therefore exceeded by 32% (R167, 153). Finance charges mainly relates to interest on overdue municipal accounts and the interest accrued on tenant's deposits. The interest on municipal account was not anticipated as the entity had applied for waiver of interest, however the request was subsequently declined

### **8. Other expenditure**

The original budget was R31,2 million. The budget was increased by R4,6 million mainly to provide for expenditure on municipal services. The final budget was R35, 8 million, while the actual expenditure was R33,4 million. 93% of the budget was spent. The budget was therefore more than the expenditure by R2,4 million. The variance includes underspending of about R650,000 on legal collection and litigation budget as the cases were not finalised during the year. Certain expenditure on travel, training and catering were minimised to realise savings about R500, 000 due to cost constrains. ICT expenses for licenses and consumables underspent by R351, 000 as the renewal of legacy property management system was cancelled, and expenditure on computer consumables was less than budgeted as it depended on usage. Maintenance and repairs, bank charges and advertising expenditure also under spent by about R839 000 as there was less activity than anticipated. Maintenance under spent by R366,000, while bank charges and advertising underspent by an aggregate of R472, 000.

### **9. Taxation**

The entity submitted nil return for 1st and 2nd provisional tax for 2022 year of assessment. This is significantly due to the tax calculation treatment of the SHRA grant as exempt from gross income. The negative tax expense is due to a decrease in deferred tax of R6,6 million, tax receivable of R443 281 and additional tax for 2020 year of assessment of R214 736 recognised in the current year.



# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

#### Basis of Preparation

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

The annual financial statements are prepared on the going concern basis. These annual financial statements are 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 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.

#### 1.2 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. Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

#### 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.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### 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.

#### 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.

#### Segment Reporting

The entity is assessed and reported as one segment. No segmental reporting was applied.

The entity's geographical area of operation is assessed as a single geographical area. All operations of the entity are within the Germiston area.

#### Going concern

Management's assessment of going concern is based on the entity's cash forecast, financial position, accumulated surplus, solvency, and liquidity. The entity is supported by the shareholder through the service delivery agreement and is eligible to receive grants from the SHRA as it maintains the conditional accreditation status. In addition to the entity's financial position, management's judgement on whether the entity will continue as a going concern is based on the continued support from the shareholder and maintaining its accreditation status with the SHRA.

### 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.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.3 Investment property (continued)

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.

### 1.4 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

Costs include costs incurred initially to acquire 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)
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- Furniture and Office Equipment 5-17 years

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

- IT equipment 3-13 years
- Other Equipment 4-14 years

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

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

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

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

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

Items of property, plant and equipment are derecognised when the asset is disposed 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	5 years

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.5 Intangible assets (continued)

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.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

In accordance with the Standards of GRAP 104 the financial assets of the entity are classified as follows:

- 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 instruments 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.

#### Classification

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:

<b>Class</b>	<b>Category</b>
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

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:

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Tenants' deposits	Financial liability measured at amortised cost

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### 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.

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.

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

##### 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.

##### Financial liabilities

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

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### 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

A lease is classified as operating lease if a significant portion of the risks and rewards of ownership are retained by the lessor.

#### 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.

### 1.8 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- 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 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.

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.

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.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.8 Provisions and contingencies (continued)

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

### 1.9 Impairment of 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.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

- The entity's assets are used by the entity to participate in the execution of the national and provincial housing programmes by providing social housing and affordable rental units. The salary range of the tenants is classified into secondary and primary market.
- The rental is below the market price, with a minimum rent of R875 for primary market and R2 000 for secondary market.
- The rental units that generate rental income at market related price are commercial units and housing units not funded from the restructuring capital grant or institutional housing subsidy.

### Designation

At initial recognition, the entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the entity designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.



# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Identification

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

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

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

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted. The entity considers the weighted average cost of capital as their discount rate (time value of money).

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Reversal of impairment loss

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

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable 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 cash-generating asset is recognised immediately in surplus or deficit.

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

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

### 1.10 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.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 Financial instruments (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

#### Designation

At initial recognition, the entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the entity designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

#### Identification

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

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

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

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## Accounting Policies

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### 1.10 Financial instruments (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required 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.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 Financial instruments (continued)

#### Redesignation

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

### 1.11 Revenue from exchange transactions

Revenue is the gross 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.

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.

### 1.12 Revenue from non-exchange transactions

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

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

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

#### Measurement

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.12 Revenue from non-exchange transactions (continued)

#### Government grants

Government grants are recognised as revenue when:

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

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

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

When government remit grants on a re-imburement 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

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.12 Revenue from non-exchange transactions (continued)

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

### 1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which 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.

### 1.14 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.

### 1.15 Budget information

The approved budget covers the period from 2021/07/01 to 2022/06/30.

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 budget and the annual financial statements are on the same basis of accounting.

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.

### 1.16 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.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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



# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.17 Events after reporting date

Events after 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 amount recognised in the 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.

The entity discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.18 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.

### 1.19 Tax

#### Current tax assets and liabilities

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

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the 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 and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

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

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	No effective date has yet been determined by the minister of finance	Unlikely there will be a material impact
• GRAP 25 (as revised 2021): Employee Benefits	No effective date has yet been determined by the minister of finance	Unlikely there will be a material 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 104 (amended): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

### 3. Current tax receivable

Opening Balance	2 461 835	3 212 532
Previous year additional assesment	(214 738)	(461 789)
Interest received on amounts due by SARS	40 583	-
Current year tax (payable) receivable	-	(33 996)
Previous year tax received in current year	(2 287 680)	(309 057)
Prior year over payment of provisional tax receivable	443 281	-
Interest receivable current year	9 382	54 145
	<b>452 663</b>	<b>2 461 835</b>

In the calculation of income tax, the entity is adjusting for the exempt income received in respect of government grants listed in the eleventh schedule (S12p). The grant received by the entity from the SHRA is listed on the eleventh schedule.

TAX RATE RECONCILIATION	30 June 2022	%	30 June 2021	%
(Loss)/Profit before tax	(4 253 690)	-	6 128 197	-
Tax on profit before tax at a rate of 28%	-	-	1 715 895	28
SHRA grant income exemption	(7 540 628)	177	(8 018 430)	(131)
Temporary differences	1 150 251	(27)	1 104 404	18
Prior year tax receivable	(443 281)	-	-	-
	<b>(6 833 658)</b>	<b>150</b>	<b>(5 198 131)</b>	<b>(85)</b>

### 4. Deferred operating lease

Office building: Leased - 99 451

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021		
<b>4. Deferred operating lease (continued)</b>				
<b>Operating Lease- Building 30 June 2021</b>	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	267 838	-	-	267 838
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. The lease expired on the 31 October 2021.				
<b>5. Receivables from exchange transactions</b>				
Deposits			404 809	404 809
Related party receivables-City of Ekurhuleni			350 174	350 174
Other receivables			707 904	256 710
Prepaid expenses			188 601	226 187
			<b>1 651 488</b>	<b>1 237 880</b>
<b>Other receivables past due but not impaired</b>				
At 30 June 2022, other receivables of R350 174 (30 June 2021: R 3, 743) were past due but not impaired. R350 174 relates to municipal services accounts with credit balances as per the confirmation of balances as at 30 June 2022.. In 2020/21, R3 743 was payroll related transactions with third parties receivable within 3 months.				
The ageing of amounts past due but not impaired is as follows:				
1 month past due			-	3 743
Over 6 months past due			350 174	-
<b>6. VAT receivable</b>				
VAT			47 083	48 581
<b>7. Consumer debtors</b>				
<b>Gross balances</b>				
Housing rental			98 989 951	69 493 742
<b>Less: Allowance for impairment</b>				
Housing rental			(93 786 239)	(65 049 353)
<b>Net balance</b>				
Housing rental			5 203 712	4 444 389
<b>Housing rental</b>				
Current (0 -30 days)			4 371 533	280 300
31 - 60 days			3 395 320	3 169 612
61 - 90 days			3 456 107	3 150 069
91 - 120 days			3 310 238	3 158 202
121 - 365 days			84 456 753	59 735 559
			<b>98 989 951</b>	<b>69 493 742</b>
Balance at beginning of the year			(65 049 353)	(42 435 008)
Contributions to allowance			(32 186 981)	(25 490 901)
Debt impairment written off against allowance			3 450 094	2 876 556
			<b>(93 786 239)</b>	<b>(65 049 353)</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 7. Consumer debtors (continued)

#### Consumer debtor's collateral

Tenants deposits held as collateral on amounts owing is R5, 657, 795 (2021: R 5,567,361). The deposit is held for repairs to the unit and arrears when the tenant vacates

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#### Consumer debtors past due but not impaired

At 30 June, 2022, consumer debtors of R 671 737 (2021: R 1 113 104) were past due but not impaired. Consumer debtors which are 30, 60 and 90 days past due are provided for at 25%, 50% and 75% respectively. Percentage not provided for is considered to be recoverable.

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

1 month past due	344 897	549 583
2 months past due	195 131	387 997
3 months past due	131 709	175 524

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	518	24
Short-term deposits: tenants deposits	3 950 427	3 868 331
Short-term investments	5 232 595	7 624 252
Bank balances	11 937 255	16 965 169
	<b>21 120 795</b>	<b>28 457 776</b>

The bank balances include a conditional grant from the SHRA to fund the Clayville Ext 45 construction project. The balance of the grant as at 30 June 2022 is R5 849 581 (30 June 2021: R10 741 671).

Short-term deposits include tenants' deposits held in a liquid investment account. The balance as at 30 June 2022 is R3 950 427 (2020/21: R3 868 331), the investment is held for the settlement of the current liability referred to in Note 14.

Cash and cash equivalents earn interest at fixed rates.

#### The entity had the following bank accounts

Account number /description	Closing balance: 30 June 2022	Opening balance: 01 July 2021	Opening balance: 01 July 2020
ABSA-Current account - 4052348660	334 639	886 085	1 917 218
ABSA-Call account - 4078340070	2 360 015	2 309 131	2 285 679
ABSA-current account-4055919492	-	-	1 026 192
ABSA- current account-4099270252	5 849 581	10 741 671	-
ABSA- current account-4099506067	401 259	5 311 430	-
ABSA- current account-4050383636	2 757 326	25 983	4 347 712
ABSA-call account- 4078340151	1 590 410	1 559 200	1 543 364
ABSA-Call 32 Days 676886622010	5 232 596	7 624 252	10 182 158
ABSA-current account-4101506844	2 594 348	-	-
ABSA-current account-4102528394	104	-	-
	<b>21 120 278</b>	<b>28 457 752</b>	<b>21 302 324</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022			2021 Restated*		
<b>9. Investment property</b>						
	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	265 189 600	(39 459 559)	225 730 041	246 430 335	(34 992 627)	211 437 708

### Reconciliation of investment property -30 June 2022

	Opening balance	Additions (Work in progress)	Depreciation	Total
Investment property	211 437 708	18 759 265	(4 466 932)	225 730 041

### Reconciliation of investment property - 30 June 2021

	Opening balance	Additions (Work in progress)	Depreciation	Total
Investment property	196 397 874	19 506 766	(4 466 932)	211 437 708

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 2022: R5 677 656); (30 June 2021: R4 007 859) and rental revenue from investment property (30 June 2022: R43 172 222); (30 June 2021:R42 014 067).

The entity commenced construction on Clayville Ext 45 project in the 2020/21 financial year. The project is co-funded by CoE and SHRA. The entity has accounted for the cumulative expenditure funded by SHRA of R18,759,265 (30 June 2021: R19,506,766) as work in progress. Expenditure funded by CoE is recorded in the CoE's books.

The Clayville Ext 45 project is behind schedule. The project is on a complete standstill. Key reasons are:

1. Sinapi Global 3TMDK International JV have "surrendered" the project and are not on site anymore since 18 March 2022. EHC has therefore terminated the contract.
2. The Proconse contract has been terminated due to the following reasons:
  - Non-performance by the contractor for a prolonged period, although the contractor was put on terms 3 times.
  - The contractor communicated that they have been placed under liquidation hence they cannot access the funds.

The carrying value of investment property on hold as at 30 June 2022 is R38 266 031. There are no impairment losses recognised in relation to this asset.

### 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.

\* See Note 35

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>9. Investment property (continued)</b>		
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.		
Erf 1/6551, Erf 2/6551 and Erf 3/6551 of Clayville Extension 45. The entity has entered into a land development agreement, granting development rights to EHC for purpose of Social Housing Rental units in Clayville extension 45. The project is still in progress. The cost of R18 759 265 (2020/21: R19, 506, 766) has been added as work in progress.		
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, and Chris Hani village which can be valued at cost of R 67 084 729 and R78 233 893 respectively.		
<b>Details of property</b>		
<b>Investment property at cost - Airport Park and Delville Ext 3 &amp; Ext 9 (old)</b>		
- Purchase price: 1 December 2008	1 484 465	1 484 465
- Additions since purchase or valuation	29 070 639	29 070 639
- Capitalised expenditure	134 833	134 833
	<b>30 689 937</b>	<b>30 689 937</b>
<b>Investment property at cost - Pharoe Park</b>		
- Purchase price: 1 December 2008	1 995 063	1 995 063
- Additions since purchase or valuation	9 848 291	9 848 291
- Capitalised expenditure	28 869 635	28 869 635
	<b>40 712 989</b>	<b>40 712 989</b>
<b>Investment property at cost - Chris Hani Village</b>		
- Purchase price: 1 December 2008	137 975	137 975
- Additions since purchase or valuation	78 233 893	78 233 893
- Capitalised expenditure	9 862 511	9 862 511
	<b>88 234 379</b>	<b>88 234 379</b>
<b>Investment property at cost - Delville Ext. 9 (New) and Clayville Ext. 45</b>		
- Purchase price: 1 December 2008	201 535	201 535
- Additions since purchase or valuation	67 084 729	67 084 729
- Capitalised expenditure	38 266 031	19 506 766
	<b>105 552 295</b>	<b>86 793 030</b>
<b>Total</b>		
- Purchase price: 1 December 2008	3 819 038	3 819 038
- Additions since purchase or valuation	184 237 552	184 237 552

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>9. Investment property (continued)</b>		
- Capitalised expenditure	77 133 010	58 373 745
	<b>265 189 600</b>	<b>246 430 335</b>

### Details of valuation

Airport Park and Delville Ext 3 & Ext 9 (old) - Erven 59, 61& 62 - valuation 2018: R165 980 000

Pharoe Park -Erven122-128,130,132,134-139,263,265,267,269,270-271,287,305-308 - valuation 2018: R140 600 000

Portion 71 of the farm Klippoortjie 110R, Germiston - valuation 2018: R22 070 000

### 10. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and Fittings	723 405	(390 529)	332 876	863 856	(514 692)	349 164
Office equipment	532 291	(446 804)	85 487	532 291	(375 163)	157 128
IT equipment	1 427 437	(797 325)	630 112	1 498 596	(951 276)	547 320
Other equipment	9 870 667	(4 175 209)	5 695 458	10 016 712	(2 455 874)	7 560 838
<b>Total</b>	<b>12 553 800</b>	<b>(5 809 867)</b>	<b>6 743 933</b>	<b>12 911 455</b>	<b>(4 297 005)</b>	<b>8 614 450</b>

### Reconciliation of property, plant and equipment - 30 June 2022

	Opening balance	Additions	Assets scrapped	Depreciation	Total
Furniture and Fittings	349 164	55 733	-	(72 021)	332 876
Office equipment	157 128	-	(7 618)	(64 023)	85 487
IT equipment	547 320	345 221	(11 810)	(250 619)	630 112
Other equipment	7 560 838	87 685	(8 417)	(1 944 648)	5 695 458
	<b>8 614 450</b>	<b>488 639</b>	<b>(27 845)</b>	<b>(2 331 311)</b>	<b>6 743 933</b>

### Reconciliation of property, plant and equipment - 30 June 2021

	Opening balance	Additions	Assets scrapped	Prior period error	Depreciation	Total
Furniture and Fittings	426 711	-	(16)	914	(78 445)	349 164
Office equipment	233 636	-	-	1 797	(78 305)	157 128
IT equipment	728 368	159 971	(44 219)	8 481	(305 281)	547 320
Other equipment	5 533 489	3 928 208	(276 279)	10 060	(1 634 640)	7 560 838
	<b>6 922 204</b>	<b>4 088 179</b>	<b>(320 514)</b>	<b>21 252</b>	<b>(2 096 671)</b>	<b>8 614 450</b>

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

No assets were impaired for the year ending 30 June 2022. In the financial year ending 30 June 2021, assets with a carrying value of R 8,979 were impaired.

The useful life of assets were revised and the impact in the current period is disclosed under note 34.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
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### 11. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	109 250	(14 567)	94 683	-	-	-

#### Reconciliation of intangible assets - 30 June 2022

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	109 250	(14 567)	94 683

Computer software, other relate to development and design of website App.

### 12. Trade and other payables from exchange transactions

Trade payables	2 236 088	1 320 602
Payroll creditors	13 271	174
Accrued 13th cheque bonus	803 758	846 612
Accrued expense-Suppliers	18 182 712	11 668 925
Other payables	302 637	321 061
Advance payments-consumer debtors	1 047 756	1 198 626
	<b>22 586 222</b>	<b>15 356 000</b>

Trade payables are interest bearing and are normally settled within 30 days. All other payables are non-interest bearing and have an average term of three months. Other payables relate to medical aids and pension fund contributions payable in arrears. Non-financial instruments included in trade and other payables are 13th Cheque bonus and payroll creditor. All other trade and other payables are financial instruments.

### 13. Provisions

#### Reconciliation of provisions - 30 June 2022

	Opening Balance	Additions	Utilised during the year	Total
Legal fees	407 979	-	(407 979)	-
Leave Pay Provision	1 374 561	-	(137 272)	1 237 289
Performance Bonus Provision	1 816 134	930 498	-	2 746 632
Provision for interest on tenant's deposits	871 035	128 662	(10 420)	989 277
	<b>4 469 709</b>	<b>1 059 160</b>	<b>(555 671)</b>	<b>4 973 198</b>

#### Reconciliation of provisions - 30 June 2021

	Opening Balance	Additions	Utilised during the year	Total
Legal fees	156 000	407 979	(156 000)	407 979
Leave Pay Provision	1 108 022	362 301	(95 762)	1 374 561
Performance Bonus Provision	894 483	921 651	-	1 816 134
Provision for interest on tenant's deposits	780 060	110 222	(19 247)	871 035
	<b>2 938 565</b>	<b>1 802 153</b>	<b>(271 009)</b>	<b>4 469 709</b>

The provision represents management's best estimate of the entity's liability.



# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>13. Provisions (continued)</b>		
Provision for legal fees is based on the amount claimed by the service provider for the period ending 30 June 2021. Subsequently the service provider agreed to the settlement and final invoice of R110, 466.		
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 based on signed performance agreements.		
The provision for interest on tenants' deposits is computed from the lease date to the date of vacating the unit.		
<b>14. Tenants deposits</b>		
Deposits charged	5 657 795	5 567 361
The tenants' deposits consist of two months rental paid by the tenants at the inception of the rental lease. Deposits are held in an interest-bearing account as at 30 June 2022 amounts to R3 950 427 (2020/21: R3 868 331). The difference is held in the current account to refund tenants as and when they terminate the lease. 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.		
<b>15. Unspent conditional grants and receipts</b>		
<b>Movement during the year</b>		
Opening Balance	3 784 768	-
Grant received - SHRA	19 202 593	23 291 534
Income recognised - SHRA	(18 759 265)	(19 506 766)
	<b>4 228 096</b>	<b>3 784 768</b>
The entity received R19, 2 million (2020/21: R23, 3 million) from the SHRA and spent R18, 7 million (R19, 5 million (2021/22)). The grant is a conditional grant for the Clayville Ext 45 construction project.		
<b>16. Deferred tax</b>		
<b>Deferred tax liability</b>		
Opening balance	(31 974 610)	(38 111 808)
Deferred tax movement from reversals of temporary differences	6 605 113	6 137 198
<b>Total deferred tax (liability)/asset</b>	<b>(25 369 497)</b>	<b>(31 974 610)</b>
<b>Reconciliation of deferred tax liability.</b>		
At beginning of year	(31 974 610)	(38 111 808)
Leave Provision	(38 436)	74 631
Performance bonus	260 539	258 062
Investment property-Building: Pharoe Park	108 686	108 686
Investment property-Building: Germiston Phase II	(611 099)	117 039
Investment Property - Buildings: Chris Hani	438 436	438 436
Property plant and equipment	8 518	31 851
Investment property-Building: Delville Ext 9	375 878	375 878
Operating lease liability	27 846	(16 397)
Provision for bad debts	6 034 745	4 749 012
	<b>(25 369 497)</b>	<b>(31 974 610)</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>16. Deferred tax (continued)</b>		
<b>Recognition of deferred tax liability</b>		
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.		
<b>17. Contributions from owners</b>		
<b>Authorised</b>		
1000 Ordinary shares of par value of R1 each	1 000	1 000
<b>Issued</b>		
100 Ordinary Shares Issued to Ekurhuleni Metropolitan Municipality	100	100
<b>18. Revenue</b>		
Rental from investment properties	43 172 222	42 014 067
Rental from retail property	180 000	45 000
Recoveries	6 467 822	6 338 252
Other income	266 063	359 424
Interest received	1 064 822	803 833
Government grants & subsidies	15 889 727	15 902 330
Other grants	26 931 890	28 637 251
	<b>93 972 546</b>	<b>94 100 157</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Rental from investment properties	43 172 222	42 014 067
Rental from retail property	180 000	45 000
Recoveries	6 467 822	6 338 252
Other income	266 063	359 424
Interest received	1 064 822	803 833
	<b>51 150 929</b>	<b>49 560 576</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Transfer revenue</b>		
Government grants & subsidies: City of Ekurhuleni	15 889 727	15 902 330
Other grants	26 931 890	28 637 251
	<b>42 821 617</b>	<b>44 539 581</b>
Other grants consist of conditional grants recognised as income during the year. A grant of R26, 930, 814 (2020/21: R28, 637, 251) from the SHRA was recognised.		
<b>19. Recoveries</b>		
Water	3 130 824	3 038 692
Sewerage	1 428 327	1 388 132
Damage and repairs	44 170	97 072
Refuse	1 864 501	1 814 356
	<b>6 467 822</b>	<b>6 338 252</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>20. Other income</b>		
Lease administration fees	9 451	14 100
Letters of demand fees	-	165 058
Tender administration fees	30 000	11 304
SARS Interest earned and penalties refunded	49 964	54 145
Insurance and other refunds	56 248	6 425
Other income-Tenants	120 400	108 392
	<b>266 063</b>	<b>359 424</b>
<b>21. Interest received</b>		
Bank	1 064 795	802 995
Interest charged on overdue Accounts-Tenants	27	838
	<b>1 064 822</b>	<b>803 833</b>
<p>Bank interest include interest from current account, liquid short-term investments and interest earned from property transfer duty. Interest income from the bank is calculated at 3.5% on current and call accounts and 4.75% on 32 days notice investment as at 30 June 2022 (Refer to note 37: interest rate risk).</p> <p>The amount included in Investment revenue arising from exchange transactions amounted to R1 064 795 (2020/21: R 802 995).</p>		
<b>22. Employee related costs</b>		
Basic	18 352 129	18 351 397
Performance bonus	930 498	921 651
Medical aid - company contributions	1 049 116	1 087 829
UIF	60 846	55 213
SDL	209 038	181 222
Leave pay provision charge	(86 462)	362 301
Provident fund	1 629 942	1 627 733
Cell phone allowance	110 600	114 600
Overtime payments	50 176	8 408
13th Cheques	786 390	880 364
Travel allowance	368 400	368 400
	<b>23 460 673</b>	<b>23 959 118</b>
<b>23. Finance costs and penalties</b>		
Interest paid on Municipal services accounts (Refer to Note 31)	564 902	30 017
Interest and penalties (Refer to Note 31)	402	10 182
Interest paid on tenant's deposits	128 661	110 222
	<b>693 965</b>	<b>150 421</b>
<b>24. Impairment-Consumer Debtors</b>		
Contributions to debt impairment provision	28 736 887	22 614 345
Bad debts written off - Consumer debtors	3 450 094	2 876 556
	<b>32 186 981</b>	<b>25 490 901</b>
<b>25. Repairs and maintenance</b>		
<b>Contractors</b>		
Maintenance of Buildings and Facilities	5 677 656	4 007 859

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>25. Repairs and maintenance (continued)</b>		
Repairs and maintenance relate to investment property (refer to note 9)		
<b>26. General expenses</b>		
Advertising	26 675	23 425
Assessment rates & municipal charges	1 166 949	670 843
Audit fees	935 811	868 605
Bank charges	110 935	433 360
Cleaning Services: investment properties	4 091 176	3 771 876
Consulting and professional fees	374 138	68 780
Debt collection	50 551	495 805
Insurance	554 488	683 523
Workshops and office consumables	144 565	48 095
Gardening	10 794	-
Pest control	166 707	122 236
Placement fees	3 500	5 763
Printing and stationery	252 276	178 512
Security: investment properties	6 222 914	5 268 174
Software licenses	487 711	391 062
Telephone and fax	930 751	1 118 226
Travel and accommodation- local	7 232	54 305
Electricity	21 071	49 827
Sewerage and waste disposal: investment properties	1 289 261	1 417 387
Water: investment properties	7 519 789	6 046 877
Refuse: investment properties	1 260 511	897 177
Bursaries and training	-	488 070
Office rental: operating costs and rates	718 233	739 615
Other expenses	415 991	742 695
	<b>26 762 029</b>	<b>24 584 238</b>
<b>27. Taxation</b>		
<b>Major components of the tax income</b>		
<b>Current</b>		
Deferred Tax	(6 605 113)	(6 137 198)
Local income tax - current period	-	477 278
Local income tax - prior period	(228 545)	461 789
	<b>(6 833 658)</b>	<b>(5 198 131)</b>
<b>28. Taxation paid</b>		
Normal Income Tax paid - Current year	-	443 281
Overpayment of provisional tax refunded	-	(309 057)
Normal Income Tax paid - Prior year	-	461 788
Previous year tax received in current year	(2 287 680)	-
	<b>(2 287 680)</b>	<b>596 012</b>

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>29. Cash generated from operations</b>		
Surplus	2 579 968	11 326 328
<b>Adjustments for:</b>		
Depreciation and amortisation	6 812 810	6 542 351
Loss on scrapped assets	27 845	320 514
Debt impairment	32 186 981	25 490 901
Movements in operating lease assets and accruals	99 451	(58 559)
Movement in provisions	503 489	1 531 144
Movement in deferred tax	(6 605 113)	(6 137 198)
Movement in tax (securities transfer duty payable)	2 009 171	750 698
Impairment on loans	-	35 031
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(412 110)	347 777
Consumer debtors	(32 946 304)	(26 525 915)
Trade and other payables from exchange transactions	7 230 226	12 880 262
Unspent conditional grants and receipts	443 328	3 784 768
	<b>11 929 742</b>	<b>30 288 102</b>
<b>30. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Current year fee	935 811	868 605
Amount paid - current year	(935 811)	(868 605)
	-	-
<b>VAT</b>		
VAT receivable	47 083	48 581
<b>31. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	1 978 369	1 938 170
Add: Interest overdue Municipal accounts	564 902	30 017
Add: Interest on overdue account - Provident fund	787	10 182
<b>Closing balance</b>	<b>2 544 058</b>	<b>1 978 369</b>

Interest of R787 (2020/21: R10, 182) was incurred due to late payment of Provident fund accounts. The amount incurred in the current year is in addition to prior year interest reported to MPAC. MPAC recommended that the amount of R10, 182 be certified to be recovered by council. Disciplinary process is still in progress

During the current financial year the entity incurred interest on overdue accounts for municipal accounts held with the City of Ekurhuleni. The interest amounted to R564, 902 (2020/21: R30, 017). The entity was not able to settle the accounts owed to the municipality due to financial constraints. The entity requested a relief on interest for the financial year, however the request was declined. The entity is still engaging with the City of Ekurhuleni to waive the interest.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>32. Irregular expenditure</b>		
Opening balance as previously reported	20 570 695	20 090 076
Add: Irregular Expenditure - current year	17 618	-
Add: Irregular Expenditure - current year	285 534	179 550
Less: Amounts recovered - current year	-	(23 500)
Add: Irregular Expenditure - current year	3 295 220	4 577 844
Less: Amount written off - current	(4 577 844)	(132 500)
Less: Amount written off - current	-	(378 961)
Less: Amount written off - current	-	(3 741 814)
<b>Closing balance</b>	<b>19 591 223</b>	<b>20 570 695</b>

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 in 2018/19 and a further amount of R3, 741, 814 was incurred in the 2019/20 financial year relating to the same contract. The contract terminated in the 2019/20 financial year. MPAC recommended for R3, 741, 814 to be written off. MPAC further recommended that the matter be referred for disciplinary action processing by the Accounting Officer or Disciplinary Board. The matter is being considered by the EHC board of Directors as referred by the disciplinary board. The council ratified the expenditure of R3, 741, 814 on the 31 May 2021.

In the 2019/20 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. MPAC recommended that the board be trained on SCM compliance to avoid recurrence. MPAC further recommended that the amount be written off. The council ratified the expenditure on the 31 May 2021. The amount due to the attorneys was reduced by R23, 500 during the 2020/21 financial year. The amount of R132, 500 was written off.

Local Government: Municipal Systems Amendment Act, No 44 of 2003 section 93F (1) states that "a person is not eligible to be a director of a municipal entity if he or she is an official of the parent municipality of that municipal entity". A board member and Chairperson of remuneration committee is a full-time employee of the City of Ekurhuleni effective from 01 July 2020. The board member is therefore disqualified from the date he commenced with his duties as an employee of the City of Ekurhuleni. An amount of R 179,550 paid as board fees from 01 July 2020 is therefore irregular expenditure. The chairperson of the board and CoE has been notified. The entity has made efforts to recover this cost from the former director. MPAC referred the matter to internal audit for investigation.

A long-term contract awarded in 2019/20 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 R3, 295, 220 and (2020/21: R4, 577,844 was incurred. MPAC recommended that the amount of R378, 961 be written off. The council ratified the expenditure on the 31 May 2021. The entity has agreed with the service provider to mutually terminate the contract to avoid further incurrence of the irregular expenditure. The council ratified the expenditure of R4, 577, 844 on the 04 April 2022. The EHC board of Directors are considering the matter to implement consequence management.

EHC entered into an operating lease agreement for office accommodation for a period 5 years since 01 December 2016. The lease expired on the 31 October 2021, post the extension the entity entered into month-to-month agreement on the same terms as the initial lease. The value of the extension and the month-to-month agreement as at 30 June 2022 exceeded the allowed variation of 15% by R285 534.

EHC procured Microsoft 365 business licenses for 30 users for a period of twenty-four (24) Months. After the expiry of the contract, EHC extended the contract for 2 months. The value of the extension exceeded the allowed variation of 15% by R17 618.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
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### 33. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling entity	City of Ekurhuleni
Other members of the group	Brackpan Bus Company (SOC) NPC East Rand Water Care Company (SOC) NPC
Members of key management	B Molefe (Chief Executive Officer) D Pertab (Chief Financial Officer) Adv. Tebogo Mogosoana (Company Secretary resigned: 31 October 2021)

The entity received services in kind from its parent municipality. The value of the services received are deemed insignificant. The services were:

- Internal audit functions
- Audit Committee functions
- Risk Committee functions
- Information Technology services

#### Related party balances

##### Amounts included in Trade receivable (Trade Payable) regarding related parties

City Of Ekurhuleni	350 174	350 174
City Of Ekurhuleni	(18 035 014)	(4 702 094)

Receivable amount of R350, 174 (2020/21: R350, 174) relates to municipal rates accounts held with the City of Ekurhuleni.

Amounts payable of R18, 035, 014 (2020/21: R4, 702, 094) relates to the municipal rates accounts held with the City of Ekurhuleni.

#### Related party transactions

##### Purchases from (sales to) related parties

City of Ekurhuleni	11 257 584	9 082 110
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##### Grants received from related parties

City of Ekurhuleni	(16 036 000)	(16 000 000)
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# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
<b>33. Related parties (continued)</b>		
<b>Remuneration of Non-Executive Directors and key members of management</b>		
<b>Non-Executive Directors</b>		
<b>30 June 2022</b>		
	Non-Executive Directors' fees	Total
<b>Name</b>		
L Netshitenzhe	160 317	160 317
T Limako	160 317	160 317
HT Thopola	160 317	160 317
T Vukea	160 317	160 317
B Moholo	157 550	157 550
F Dikgale	224 433	224 433
T Hanganana	222 296	222 296
D Hlawula	179 544	179 544
N Siwahla-Madiba	269 172	269 172
	<b>1 694 263</b>	<b>1 694 263</b>

### 30 June 2021

	Non-Executive Directors' fees	Total
<b>Name</b>		
L Netshitenzhe	382 629	382 629
T Limako	397 593	397 593
HT Thopola	350 566	350 566
T Vukea	399 731	399 731
Z Nkamana	179 550	179 550
B Moholo	474 500	474 500
	<b>2 184 569</b>	<b>2 184 569</b>

### Key members of management

#### 30 June 2022

	Basic salary (Annual remuneration)	Leave pay	UIF, medical aid and pension funds	Acting allowance	Travel allowance	Total
<b>Designation/Name</b>						
Chief Executive Officer: B Molefe	1 808 854	-	211 146	-	180 000	2 200 000
Chief Financial Officer: D Pertab	1 868 138	-	171 862	15 624	-	2 055 624
Company Secretary: T Mogosoana (resigned: 31 October 2021)	355 614	26 048	47 074	-	-	428 736
Acting Chief Financial Officer: T Mkhabela	-	-	-	25 268	-	25 268
Acting Company Secretary: B Baloyi	-	-	-	11 158	-	11 158
Acting Company Secretary: M Mntungwa	-	-	-	18 697	-	18 697
	<b>4 032 606</b>	<b>26 048</b>	<b>430 082</b>	<b>70 747</b>	<b>180 000</b>	<b>4 739 483</b>



# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

	2022	2021 Restated*
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### 33. Related parties (continued)

30 June 2021

Designation/Name	Basic salary (Annual remuneration)	UIF, medical aid and pension funds	Acting allowance	Travel allowance	Total
Chief Executive Officer: B Molefe	1 806 628	212 897	-	180 000	2 199 525
Chief Financial Officer: D Pertab	1 877 752	163 240	15 037	-	2 056 029
Company Secretary: T Mogosoana	826 322	103 454	-	-	929 776
	<b>4 510 702</b>	<b>479 591</b>	<b>15 037</b>	<b>180 000</b>	<b>5 185 330</b>

Acting company secretary for the period November 2021 to April 2022: M Mntungwa

Acting company secretary for the period May 2022 to June 2022: B Baloyi

### 34. Change in estimate

#### Property, plant and equipment

The useful life of certain computer equipment, furniture, office and other equipment has been revised in the current period by 2 years effective from 01 July 2021 based on the condition and use of the assets. The effect of this revision has decreased the depreciation charge for the current periods by R46 281 (Depreciation: Note 10).

### 35. Prior period errors

Note 31: Fruitless and wasteful expenditure has been restated by R30 017 (As previously reported: R1 948 352; Restated: R1 978 369). The interest was omitted by error in the prior year. Finance costs and penalties in the cash flow statement was also adjusted with the R30 017 as the interest was not paid.

Depreciation has been restated due to assets that depreciated the full carrying value of the asset in the prior year due to error in the asset register when the useful life was revised for the 2020/21 financial year. This resulted in these assets not depreciating in the current year. Prior year depreciation is therefore reduced by R21, 252. The assets were still in use in the current year.

Proceeds from loans from economic entities has been restated. The amount for proceeds was erroneously disclosed as a cash outflow. The receipts from customers and receivables from exchange transactions in note 29 (Cash generated from operations) was also adjusted.

Presented below are the affected line items:

#### Statement of financial position

30 June 2022

	Note	As previously reported	Correction of error	Restated
Accumulated depreciation: IT equipment	10	(959 756)	8 481	(951 275)
Accumulated depreciation: Furniture and Fittings	10	(515 606)	914	(514 692)
Accumulated depreciation: Other equipment	10	(2 465 933)	10 060	(2 455 873)
Accumulated depreciation: office equipment	10	373 368	1 797	375 165
		<b>(3 567 927)</b>	<b>21 252</b>	<b>(3 546 675)</b>

#### Statement of financial performance

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

		2022	2021 Restated*
<b>35. Prior period errors (continued)</b>			
<b>30 June 2022</b>			
	Note	As previously reported	Correction of error
Depreciation	9&11&10	6 563 603	(21 252)
			6 542 351
<b>Cash flow statement</b>			
<b>30 June 2022</b>			
	Note	As previously reported	Correction of error
Cash flow from operating activities			
Customers		17 069 385	(539 240)
Finance costs and penalties		(39 814)	30 017
Suppliers		(16 216 821)	(30 017)
		<b>812 750</b>	<b>(539 240)</b>
Cash flow from investing activities			
Proceeds from loans from economic activities		(269 620)	539 240

### 36. Comparative figures

Comparative figures for office rental in note 26 have now been presented separately to conform to the presentation used in the current year. The line item was previously included in the other expenses.

### 37. Social housing arrangements

The City of Ekurhuleni appointed EHC as project developer whereby the entity undertakes the construction of social housing projects by appointing sub-contractors to undertake construction on its behalf. No commission is earned by the entity on implementation of the program.

EHC participated in the development of Kempton Park and Clayville Social Housing Projects. The Kempton Park, Long Street development of 84 social housing units. The Clayville Ext 45 development of 452 social rental multi-storey units. The entity accounted for the Clayville social housing project to the extent funds were received from SHRA. The entity recognised R18, 759, 265 (2020/21: R19, 506, 766) as work in progress in the current financial year. For projects funded by CoE the entity has not recognised any revenue nor expense.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 38. 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, 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	22 586 222	-	-	-
Provisions	4 973 198	-	-	-
Tenants deposits	5 657 795	-	-	-
At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	15 356 000	-	-	-
Provisions	4 469 709	-	-	-
Tenants deposits	5 567 361	-	-	-

#### 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

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

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. Tenant's deposits are held as collateral on amounts owing and for any repairs upon the tenant moving out.

Cash and cash equivalent - 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.

# GERMISTON PHASE II HOUSING COMPANY SOC LTD trading as EKURHULENI HOUSING COMPANY

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>38. Risk management (continued)</b>		
<b>Financial instruments disclosure</b>		
<b>Financial assets at amortised cost</b>		
Trade and other receivables from exchange transactions	1 651 488	1 237 880
Consumer debtors	5 203 712	4 444 389
Cash and cash equivalents	21 120 795	28 457 776
Deferred operating lease	-	99 451
	<b>27 975 995</b>	<b>34 239 496</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables from exchange transactions	21 466 540	15 356 000
Tenants deposits	5 657 795	5 567 361
	<b>27 124 335</b>	<b>20 923 361</b>

The entity reviews its foreign currency exposure, including commitments on an ongoing basis. The entity expects its foreign exchange contracts to hedge foreign exchange exposure.

### 39. 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.

### 40. Covid-19

The implications of COVID-19 continue to affect the entity. The entity's annual rental collections rate remained significantly low at 38% (2020/21: 45%) which has resulted in the increase in provision for doubtful debts of R32, 186, 981 (2020/2021: R25, 490,901). To mitigate the impact, the entity is curtailing activities based on priority and effectively managing working capital. The shareholder approved the operational grant of R17,8 million for the 2022/23 financial year.

The entity had incurred expenses in the current year of R6, 189 (2020/21: R17, 105) relating to cleaning and protection equipment for employees.

### 41. 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.