

**THE BODY CORPORATE OF PEZULA HOTEL
(Scheme number SS 598/2004)
Annual Financial Statements
for the year ended 28 February 2018**

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The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Index

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

Index	Page
Independent Auditor's Report	2 - 4
Trustees' Responsibilities and Approval	5
Trustees' Report	6
Statement of Financial Position	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Accounting Policies	11
Notes to the Annual Financial Statements	12 - 14
The following supplementary information does not form part of the annual financial statements and is unaudited:	
Detailed Income Statement	15

DRAFT

Independent Auditor's Report

To the members of The Body Corporate of Pezula Hotel

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of The Body Corporate of Pezula Hotel set out on pages 7 to 14, which comprise the statement of financial position as at 28 February 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of The Body Corporate of Pezula Hotel as at 28 February 2018, and its financial performance and cash flows for the year then ended in accordance with basis of accounting as set out in Note 1 to the financial statements and the requirements of the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual financial statements section of our report. We are independent of the body corporate in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 1 to the annual financial statements which describes the basis of accounting. The annual financial statements are prepared in accordance with the body corporate's own accounting policies to satisfy the annual financial statements needs of its members. As a result, the annual financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

The trustees are responsible for the other information. The other information comprises the Trustees' Report as required by the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011), which we obtained prior to the date of this report, and the supplementary information set out on page 15. Other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

Responsibilities of the trustees for the Annual Financial Statements

The trustees are responsible for the preparation and fair presentation of the annual financial statements in accordance with basis of accounting as set out in Note 1 to the financial statements and the requirements of the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011), and for such internal control as the trustees determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the trustees are responsible for assessing the body corporate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the body corporate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the body corporate's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the body corporate's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the body corporate to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

Report on other legal and regulatory requirements

In accordance with the Management Rules of the body corporate and in terms of Regulation 6 of the Sectional Titles Schemes Management Regulations 2016, Rules 26(5)(c)(ii), (iii) and (iv), we report as follows:

Compliance findings with accounting requirements (Rule 26(5)(c)(ii))

The trustees are responsible to ensure that the body corporate complies with management rules 21, 24 and 26 adopted in terms of the Sectional Title Schemes Management Regulations 2016, which includes the implementation of systems, processes and internal controls such internal control as the trustees determine is necessary.

If during the course of our audit of the annual financial statements of the body corporate we become aware of any instances of non-compliance with the accounting requirements set out in management rules 21, 24 and 26 (the Rules), we are required to report our findings. We identified the following instances of non-compliance with the Rules:

- The body corporate has not complied with Rule 24 & Rule 26(1)(b) by not maintaining separate books of accounts and separate bank accounts for its administrative and reserve funds referred to in sections 3(1)(a) & (b);
- The body corporate has not complied with Rule 26(1)(d) by not preparing a maintenance, repair and replacement plan in accordance with Rule 22;
- The body corporate has not complied with Rule 26(4) as the prior year annual financials statements were not presented at the annual general meeting within 4 months after the financial year end.

Management of the body corporate's financial affairs and funds (Rules 26(5)(c)(iii) and (iv))

In terms of relevant International Standards on Auditing we were unable to conduct an engagement relating to whether the financial records of the body corporate have been kept and its funds have been managed so as to provide a reasonable level of protection against theft or fraud, and whether the financial affairs of the body corporate appear to be effectively managed, as required by Rules 26(5)(c)(iii) and (iv). We have not gathered evidence to express any assurance opinion or conclusion thereon.

Cecil Kilpin & Co.
Chartered Accountants (SA)
Registered Auditors
Per Partner: S Schonegevel

Century City
Date: _____

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Trustees' Responsibilities and Approval

The trustees are required 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 their responsibility to ensure that the annual financial statements fairly present the state of affairs of the body corporate as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the basis of accounting as set out in Note 1 to the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the basis of accounting as set out in Note 1 to the financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The trustees acknowledge that they are ultimately responsible for the system of internal financial control established by the body corporate and place considerable importance on maintaining a strong control environment. To enable the trustees to meet these responsibilities, the trustees sets standards for internal control aimed at reducing the risk of error or loss 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 body corporate and all employees are required to maintain the highest ethical standards in ensuring the body corporate's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the body corporate is on identifying, assessing, managing and monitoring all known forms of risk across the body corporate. While operating risk cannot be fully eliminated, the body corporate endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The trustees 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 loss.

The trustees have reviewed the body corporate's cash flow forecast for the year to 28 February 2019 and, in the light of this review and the current financial position, They are satisfied that the body corporate has or has access to adequate resources to continue in operational existence for the foreseeable future.

The trustees are aware of the legislation that was introduced by the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011) on 7 October 2016. This legislation requires that the body corporate maintain a reserve fund of not less than 25% of the previous year's operational levies. In order to achieve this, the trustees will include an adjustment in the budgets for 2019 and 2020 to comply with Regulation 2(a) and 2(c).

The external auditors are responsible for independently auditing and reporting on the body corporate's annual financial statements. The annual financial statements have been examined by the body corporate's external auditors and their report is presented on pages 2 to 4.

The annual financial statements set out on pages 6 to 15, which have been prepared on the going concern basis, were approved by the board of trustees and were signed on its behalf by:

Approval of annual financial statements

Trustee

Trustee

Date: _____

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)
Annual Financial Statements for the year ended 28 February 2018

Trustees' Report

The trustees submit their report for the year ended 28 February 2018.

1. Review of activities

Main business and operations

The body corporate is engaged in governing the property and operates principally in South Africa.

The controlling body was established to administer the common property of the Sectional Scheme known as Pezula Hotel, situated at Lagoon View Drive, Sparrebosch, Knysna, for which a Sectional Title Register was opened.

All expenses applicable to the common property and administration are recovered from the various section owners by means of a monthly levy in terms of the rules of the body corporate and are in accordance with the participation quota applicable to each section.

The operating results and state of affairs of the body corporate are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Events after the reporting period

The trustees are not aware of any matter or circumstance arising since the end of the financial year that has a material impact on the annual financial statements.

3. Contributions

Contributions paid by sections owners and interest earned during the year were sufficient to meet expenditure, resulting in a levy surplus of R 335,637 (2017: R 775,685).

4. Trustees

The trustees of the body corporate during the year and to the date of this report are as follows:

Name
R Pouliart
W Kilbourn
J Lategan
E Marshing
W Perry

5. Managing Agent

The managing agent of the body corporate is Sandak-Lewin Trust (Property Management) (Pty) Ltd of:

Business address

SL House
37 Riebeek Street
Cape Town
8001

Postal address

PO Box 2624
Cape Town
8000

6. Management and conduct rules

There were no amendments or additions to the management and conduct rules.

7. Estimates of income and expenditure for the 2019 financial year

A budget for the next financial year will be presented for approval at the forthcoming annual general meeting.

8. Insured replacement values

A schedule of the replacement values of all the units will be tabled for approval at the forthcoming annual general meeting.

9. Auditors

Cecil Kilpin & Co. was the auditor for the year under review and their re-appointment is dependent on a resolution taken to that effect by the section owners at the forthcoming annual general meeting.

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Statement of Financial Position as at 28 February 2018

	Note(s)	2018 R	2017 R
Assets			
Current Assets			
Trade and other receivables	2	1,195,289	505,185
Cash and cash equivalents	3	2,047	367,748
		1,197,336	872,933
Total Assets		1,197,336	872,933
Equity and Liabilities			
Owners' funds and reserves			
Accumulated surplus		1,173,758	838,121
Liabilities			
Current Liabilities			
Trade and other payables	4	15,734	34,812
Current tax payable		7,844	-
		23,578	34,812
Total Equity and Liabilities		1,197,336	872,933

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The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Statement of Comprehensive Income

	Note(s)	2018 R	2017 R
Revenue	5	956,009	944,072
Operating expenses		(690,853)	(170,766)
Operating surplus		265,156	773,306
Investment revenue	6	78,325	2,379
Surplus before taxation		343,481	775,685
Taxation	9	(7,844)	-
Surplus (deficit)		335,637	775,685

DRAFT

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Statement of Changes in Equity

	Accumulated surplus	Total owners' funds and reserves
	R	R
Balance at 01 March 2016	62,436	62,436
Surplus (deficit)	775,685	775,685
Opening balance as previously reported	973,663	973,663
Adjustments		
Prior year adjustments (Note 10)	(135,542)	(135,542)
Balance at 01 March 2017 as restated	838,121	838,121
Surplus (deficit)	335,637	335,637
Balance at 28 February 2018	1,173,758	1,173,758
Note(s)		

DRAFT

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Statement of Cash Flows

	Note(s)	2018 R	2017 R
Cash flows from operating activities			
Cash (used in) generated from operations	10	(444,026)	323,856
Interest income		78,325	2,379
Net cash from operating activities		(365,701)	326,235
Total cash movement for the year			
Cash at the beginning of the year		367,748	41,513
Total cash at end of the year	3	2,047	367,748

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The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Accounting Policies

1. Basis of preparation and summary of significant accounting policies

The annual financial statements have been prepared on a going concern basis in accordance with the accounting policies as set out below. The annual financial statements have been prepared on the historical cost basis. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Financial instruments

Trade and other receivables, loans and trade and other payables

Trade and other receivables, loans and trade and other payable are measured at cost less any impairment. At the end of each reporting date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised.

Cash and cash equivalents

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

In terms of the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011) a reserve fund is maintained for the purposes of future maintenance and repairs to common property.

1.2 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.

Tax expenses

The body corporate is taxed in terms of section 10(1)(e) of the Income Tax Act, 1962. In terms of this section, levy income and recoveries are fully exempt. All other income is exempt up to a maximum of R50,000 per annum. Therefore, taxation is calculated and provided for on investment income and other income greater than R50,000 per annum less a portion of deductible administrative expenses.

1.3 Impairment of assets

The body corporate assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the body corporate estimates the recoverable amount of the asset.

1.4 Provisions and contingencies

Provisions are recognised when the body corporate has an obligation at the reporting date as a result of a past event; it is probable that the body corporate will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably.

Provisions are not recognised for future operating losses.

1.5 Revenue

The ordinary levies are accounted for on a straight-line basis over the financial year and decided amongst the section owners on a participation quota basis. The annual ordinary levies are agreed and approved by the members at the body corporate's annual general meeting.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
2. Trade and other receivables		
Levies in arrears	655,994	505,185
Prepayments	70,153	-
Trust account	469,142	-
	1,195,289	505,185

Ageing of levies

	2018				2017	
	Current	30 days	60 days	90 days +	Total	Total
Levies in arrears	22,323	11,431	18,033	604,207	655,994	505,185

The detailed age analysis of levies in arrears is available for inspection at the registered office of the body corporate.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Administrative Fund - ABSA Bank accounts 40-8679-6198 & 93-2536-7796	2,047	361,578
Petty cash	-	6,170
	2,047	367,748

4. Trade and other payables

Accrued expenses	7,820	34,812
Levies received in advance	7,914	-
	15,734	34,812

Accrued expenses - age analysis by creditor

	2018				2017	
	Current	30 days	60 days	90 days +	Total	Total
Cecil Kilpin & Co	7,820	-	-	-	7,820	-
HC Havenga	-	-	-	-	-	4,500
Werksmans Attorneys	-	-	-	-	-	30,312
Total	7,820	-	-	-	7,820	34,812

5. Revenue

Ordinary levies	952,849	944,072
CSOS levies	3,160	-
	956,009	944,072

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
6. Investment revenue		
Interest revenue		
Bank	17,065	-
Overdue owners accounts	61,260	2,379
	78,325	2,379
7. Auditor's remuneration		
Fees	6,900	4,500
8. Insurance policy details		
Buildings insurance		
Insurance company	Hollard Insurance Company Limited	
Policy Number	P22 006578	
Expiry date	31/05/2019	
Payment basis	Monthly	
Total replacement value	R 338,000,000	
Trustee indemnity insurance		
Insurance company	Hollard Insurance Company Limited	
Policy Number	P22 006578	
Expiry date	31/05/2019	
Payment basis	Monthly	
Indemnity insurance cover	R 5,000,000	
9. Taxation		
Major components of the tax expense		
Current taxation		
Local income tax - current period	7,844	-
<p>The body corporate is subject to tax at the company rate of 28% on the net investment income, in excess of R 50,000, in terms of Section 10(1)(e) of the Income Tax Act.</p>		
10. Cash (used in) generated from operations		
Surplus before taxation	343,481	911,227
Adjustments for:		
Interest received	(78,325)	(2,379)
Changes in working capital:		
Trade and other receivables	(690,104)	(585,492)
Trade and other payables	(19,078)	500
	(444,026)	323,856

The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Notes to the Annual Financial Statements

	2018	2017
	R	R
11. Prior period errors		
Legal fee accruals were not recognised during the prior period.		
Insurance expenses were not recognised during the prior period.		
The correction of the errors results in adjustments as follows:		
Statement of Financial Position		
Trade and Other Payables	-	(30,312)
Trade and Other Receivables	-	(105,230)
Opening retained earnings	135,542	-

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The Body Corporate of Pezula Hotel

(Scheme number: SS 598/2004)

Annual Financial Statements for the year ended 28 February 2018

Detailed Income Statement

	Note(s)	2018 R	2017 R
Revenue			
Ordinary levies		952,849	944,072
CSOS levies		3,160	-
	5	956,009	944,072
Other income			
Interest received	6	78,325	2,379
Operating expenses			
Accounting fees		920	-
Auditors remuneration	7	6,900	4,500
Bank charges		3,527	3,503
CSOS levies		3,160	-
Entertainment		-	78
General expenses		9,971	-
Insurance	8	420,918	105,230
Legal expenses		59,072	30,312
Management fees		100,196	13,900
Printing and stationery		2,879	2,246
Professional fees		80,591	-
Refreshments		-	558
Telephone and fax		2,719	1,500
Travel - local		-	8,939
		690,853	170,766
Surplus before taxation		343,481	775,685
Taxation	9	(7,844)	-
Surplus (deficit)		335,637	775,685

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