



CONFIDENTIAL

ANNEXURE

MANGAUNG METROPOLITAN COUNCIL

**CENTLEC FINANCIAL
STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2016**

PAGES 1 – 120

**TUESDAY
JANUARY 31, 2017**

MANGAUNG METROPOLITAN MUNICIPALITY

Members are kindly requested
to retain this annexure for use
with the minutes

Bram Fischer Building
BLOEMFONTEIN
JANUARY 26, 2017



Centlec (SOC) Ltd
(Registration number 2003/011612/30)
Financial statements
for the year ended 30 June 2016

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Electricity distribution
Chief Executive Officer (CEO)	Mr. AN Mgoqi
Chief Finance Officer (CFO)	Mr. TJ Ramulondi
Chief Operating Officer (COO)	Mr. LG Kritzinger
Directors	Mr. N Mokhesi (Chairperson) Me. D Myeni (Deputy Chairperson) Mr. KM Moroka Mrs. ZC Uwah Mr. CAK Choeu Mr. MI Seoe Mrs. N Mochochoko Mr. M Mohale
Registered office	195 Nelson Mandela Drive College Square Telkom Building Bloemfontein Free State 9301
Postal address	Private Bag X14 Brandhof Bloemfontein 9324
Controlling entity	Mangaung Metropolitan Municipality incorporated in South Africa
Bankers	ABSA
Auditors	Auditor-General of South Africa
Company Secretary	Phatshoane Henney Inc.
Company registration number	2003/011612/30
Tax reference number	9487328156
Attorneys	Bokwa Attorneys EG Cooper Mabalane Seobe Inc. Phatshoane Henney Inc. Ramothello Reynard & Tsotetsi

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General Information

Enabling legislation

Local Government: Municipal Finance Management Act (Act 56 of 2003)

Local Government: Municipal Systems Act (Act 32 of 2000)

Local Government: Municipal Structures Act (Act 117 of 1998)

Division of Revenue Act (Act 1 of 2015)

Companies Act (Act 71 of 2008)

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Abbreviations

IDP	Integrated Development Plan
NERSA	National Energy Regulator of South Africa
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
SDBIP	Service Delivery and Budget Implementation Plan
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SOC	State Owned Company
SALGA	South African Local Government Association
AGSA	Auditor-General of South Africa

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Corporate Governance Report

The Board & Administrative Governance

Introduction to Governance

The board sees and understands governance as a fundamental requisite in stewardship responsibilities.

To this end, the board is therefore committed to maintain the highest standards of governance. The company has a Macro-Organisational structure in place, which provides for separation of duties and responsibilities between the board and administrators.

In the course of rendering services to the community, it is therefore important to do so within the parameters of the law, and this can be achieved by connecting corporate governance with legislative risk management as a guideline.

Board Governance

1. Board of Directors

The board strives to provide the right leadership, strategic oversight and control environment to produce and sustain the delivery of value to the company's shareholder. The board applies integrity, principles of good governance and accountability throughout its activities and each director brings independence of character and judgment to the role.

All of the members of the board are individually and collectively aware of their responsibilities to the company's stakeholders and the board keeps its performance and core governance principles under regular review.

The board held both ordinary and special meetings during the period under review as follows in which a number of decisions were taken:

Type of Meeting	Date	Venue
Ordinary	12 August 2015	Protea Wanderers Hotel, Corlett Drive, Sandton, Johannesburg
Special	29 August 2015	Mangaung Metro, Bram Fischer Building, Nelson Mandela Drive, Bloemfontein
Ordinary	7 November 2015	Centlec (SOC) Ltd, Telkom Building, 195 Nelson Mandela drive, Bloemfontein
Special	4 December 2015	Centlec (SOC) Ltd, Telkom Building, 195 Nelson Mandela drive, Bloemfontein
Ordinary	26 February 2016	Centlec (SOC) Ltd, Telkom Building, 195 Nelson Mandela drive, Bloemfontein
Special	13 March 2016	Teleconference, Centlec (SOC) Ltd, Telkom Building, 195 Nelson Mandela drive, Bloemfontein
Ordinary	26 April 2016	Centlec (SOC) Ltd, Telkom Building, 195 Nelson Mandela drive, Bloemfontein

2. Board Committees

The board had the following committees during the period under review.

2.1 Audit & Risk Committee

T.S. Zakuza	Chairperson
M.C. Lale	Member
C.A. Choeu	Member
L. Majake	Member
N.P. Lubanga	Member

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2.2. Finance Committee

N. Mokhesi	Chairperson
T.A.J. Mongake	Member
F.P. Zitha	Member
Z.C. Uwah	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Chief Operations Officer	Invitee
EM: Corporate Services	Invitee
EM: Engineering	Invitee

2.3. Human Resources & Remuneration Committee

F.P. Zitha	Chairperson
S.G. Xulu	Member
M.S. Zimu	Member
T.A.J. Mongake	Member
M.L. Mbali	Member
K.M. Moroka	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Chief Operations Officer	Invitee
EM: Corporate Services	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

2.4. Social Responsibility & Ethics Committee

K.M. Moroka	Chairperson
T.A.J. Mongake	Member
F.P. Zitha	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Chief Operations Officer	Invitee

2.5. Information Technology Governance Committee

S.G. Xulu	Chairperson
M.S. Zimu	Member
K.M. Moroka	Member
Z.C. Uwah	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Chief Operations Officer	Invitee
EM: Engineering (Retail)	Invitee

2.6. Engineering Committee

M.S. Zimu	Chairperson
S.G. Xulu	Member
N. Mokhesi	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Chief Operations Officer	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

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The respective committees held meetings as follows during the period under review:

Committee	No. of Meetings	Dates of meetings
IT Governance	4	7 August 2015 26 October 2015 22 February 2016 19 April 2016
Engineering	4	7 August 2015 26 October 2015 22 February 2016 19 April 2016
HR & Remuneration	4	7 August 2015 26 October 2015 22 February 2016 25 April 2016
Audit & Risk	7	11 August 2015 28 August 2015 23 October 2015 30 November 2015 15 January 2016 19 February 2016 22 April 2016
Social Responsibility & Ethics	3	21 December 2015 11 March 2016 25 April 2016
Finance	4	12 July 2015 20 October 2015 24 February 2016 19 April 2016

Risk Management

The MFMA requires that the municipal entity develops and maintain an effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards.

The municipal entity manages its Risk Management issues through the Internal Audit Unit. The Internal Audit Unit is therefore mainly responsible for the review of the implementation of effective risk management as a key element of good governance and rigorous performance management. Risk management is an integral part of corporate, business planning and service delivery.

During the period under review, corporate and operational risk assessments were performed for all areas within the municipal entity.

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General Overview of the Entity's Performance

Overview by the Chairman

In order to achieve its vision to all its customers, Centlec (SOC) Ltd operates according to a clearly defined and carefully developed strategy. We have spent extensive time and resources on developing, refining and changing this strategy into action, so that it can form a firm foundation on which we can work for all the people, businesses and communities of the Mangaung Metropolitan and Southern Free State areas.

Centlec (SOC) Ltd has delivered on a number of important strategic areas during the financial year 2015/16. Centlec (SOC) Ltd has continued to align itself to the strategies and goals of its shareholder, Mangaung Metropolitan Municipality (MMM). The organisation values its strategic stakeholders and builds and maintains sustainable relationships with them. Great progress has been made in solving metering problems (tampering), which resulted in the conversion of a large number of rotational meters to pre-paid meters, and identification and replacement of significant faulty meters this year.

The major challenge experienced during the year under review was the significant decline in revenue. Strategies have been developed to ensure that this area of concern is being addressed going forward.

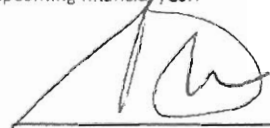
The entity has obtained an unqualified audit opinion for the 2014/15 financial year, which was a key focus area because of the implementation of a broad range of controls and measures to address the issues raised in the Auditor-General's audit opinion in the previous year.

I am pleased to report that concerns raised over management's difficulty in stabilising the revenue control environment have now been addressed, and additional measures have been instituted.

In the year ahead, I am confident that the Board and Management of Centlec will continue to strive to be a "reliable energy utility that enables social and economic upliftment."

I take this opportunity to thank our shareholder, as well as my colleagues at Centlec (SOC) Ltd, for their support in the last few months in leading the organisation's journey to achieving its goals.

As the term of office for the previous Board has come to an end, I would like to extend my appreciation for their contribution made during their term of office. I am looking forward to this new chapter and having the opportunity to serve the organisation and the community in the upcoming financial year.



Mr. N Mokhesi
Chairperson of the Board

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Executive Summary

Chief Executive Officer's Overview

As the industry is advancing from being mechanical and technology-focused to one that recognizes that sustainability depends on a deep understanding of our customers and their needs, we continue to focus on strengthening our brand in the Free State. While significant challenges still confront our city, mostly as a result of rapid growth, I am confident that we have made significant improvements in delivering on the objectives of the Service Delivery and Budget Implementation Plan (SDBIP) during the year under review.

We focused on identifying problem issues as mentioned below, which affected the entity's performance and customer service.

- Debt collection;
- Metering (tampering);
- Copper theft; and
- Hiking electricity tariffs.

We examined what needed to be fixed in our business and established clear plans to address the difficult issues head-on, agreeing on a common way forward and delivering on action plans by setting measurable milestones with regular review dates to ensure that these problem issues are addressed and improvements delivered. We also increased our focus on the team's ownership and accountability for segment performance, as well as speed of action in the event of poor delivery. It is important going forward to focus on preventative measures rather than reactive solutions.

Despite this, we were fortunate that we could continue to render high quality services to our residents during the past year. We will continue to do so, despite the challenges we face. The service standards set in the Customer Services Policy will remain one of the instruments whereby we will measure our performance.

Centlec (SOC) Ltd also invested a total of R246 229 941 in capital projects, mainly funding infrastructure projects. A total of R204 801 029 of the capital expenditure has been funded internally. Part of this money helped the entity to provide electricity successfully to the following areas:

- Five hundred and thirty-seven (537) connections that have been paid for are completed.
- One hundred and ninety-eight (198) new connections and one thousand six hundred and twenty (1 620) conversions (shiftings) were completed.
- Two thousand and fifty-four (2,054) smart street lights have been installed in the Mangaung Metropolitan Municipality area by 30 June 2016.
- There was 100% progress on the establishment of the 132/11kV 20MVA Groenvlei Distribution Centre by 30 June 2016, as the sub-station has been energized.
- Thirty-four (34) high masts have been erected and twenty-six (26) have been energized in Mangaung (Bloemfontein, Botshabelo and Thaba'Nchu).

We place our employees first as we believe that everyone should be able to return home from work safely. We continue to strive to reduce or eliminate risks that could harm employees, contractors, and all others affected by our business.

Centlec's Training and Development Centre is performing at a satisfactory level. Training is provided to internal and external stakeholders. The section continues to participate in industry-wide activities aimed at not only improving the electrical engineering profession, but also at protecting the integrity of the quality of training offered to the candidates.

Centlec (SOC) Ltd has implemented strategies to protect our business and improve livelihoods, to support long-term sustainable growth, and therefore to create value for shareholders. It has been a privilege over the past financial year to witness how deeply management and employees believe in Centlec and the immense support and assistance that is given to local communities.


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Going into the 2016/2017 financial year, discussions with stakeholders within the energy sector are held regularly to ensure that Centlec's strategic direction considers the provision of alternative sources of energy in its business model.

I would like to extend my appreciation to the Board for their guidance. I also thank the management team, who have embraced the challenges and worked tirelessly throughout the year to uphold Centlec's mission and vision.



M. AN Mgoqi
Chief Executive Officer

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Financial Statements for the year ended 30 June 2016

Director's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the municipal entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the municipal entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set 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 municipal entity and all employees are required to maintain the highest ethical standards in ensuring the municipal entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipal entity is on identifying, assessing, managing and monitoring all known forms of risk across the municipal entity. While operating risk cannot be fully eliminated, the municipal entity 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 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 municipal entity's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, they are satisfied that the municipal entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipal entity is a going concern and that Mangaung Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipal entity.

The financial statements set out on pages 19 - 118, which have been prepared on the going concern basis, were approved by the directors on 30 November 2016 and were signed on its behalf by:



Mr. N Mokhesi
Chairperson of the Board

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Financial Statements for the year ended 30 June 2016

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Audit and Risk Committee members and attendance

As provided for in terms of section 166(2) of the MFMA, the municipal entity had an Audit and Risk Committee established on 01 August 2013 to specifically address matters relating to the municipal entity. The Committee comprised the members in the table below to address issues relating to the municipal entity and 6 meetings were held and attended as reflected therein.

Member	2015/08/11	2015/08/28	2015/10/23	2015/11/30	2016/01/15	2016/02/19	2016/04/22
T.S. Zakuza (Chairperson)	Yes	Yes	Yes	Yes	Yes	Yes	No
M.C. Uale	Yes	No	Yes	Yes	Yes	Yes	Yes
N. Lubanga	Yes	Yes	Yes	Yes	No	No	Yes
C. Choeu	Yes	Yes	Yes	Yes	Yes	Yes	Yes
L. Majake	No	Yes	Yes	No	Yes	Yes	Yes

All members of the Audit and Risk Committee were independent, with no interest in the management or conduct of the business of the municipality and its entities.

Audit and Risk Committee responsibility

The Audit and Risk Committee reports that it complied with its responsibilities arising from section 166(2)(a) of the MFMA in terms of its defined responsibilities as an advisory body to the municipality and a sub-committee of the Board.

The Audit and Risk Committee also reports that it adopted appropriate formal terms of reference as its Audit and Risk Committee charter, and regulated its affairs in compliance with this charter and discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the MFMA, Internal Audit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of Internal Audit, the Auditor General's Report on the Annual Financial Statements and management's report of the Auditor-General; it was noted that there were instances of weaknesses in controls. However, the Audit and Risk Committee is pleased to report that there was significant improvement in the general controls and management put mechanisms and action plans in place to deal with identified weaknesses. Management further undertook to report to the Audit Committee on a regular basis on progress made in this regard.

The Committee received good support from the Internal Audit function and as a part of its mandate, reported to the Board regularly. The Committee also held meetings separately with Internal Audit and the AGSA to establish if there were matters of concern that could not be discussed in an open session with management.

Whilst the Risk Management Strategy and Framework is in place, it was however adopted by the Board late into the financial year under review. The effectiveness of the two documents in managing risk exposure and mitigation is still to be tested and no Assurance Reports were received in this regard.

The reports received from other areas covered as per the approved Strategic and Operational Internal Audit Plan show areas of improvement whilst also showing shortcomings that were brought to the attention of the Audit and Risk Committee by the Internal Auditors.

We also received reports of follow-up audits especially in areas that were highlighted by the AGSA in previous audits and which resulted in the qualified audit outcome previously. We received positive comments applauding improvements noted by AGSA and progress made in addressing previous audit findings and matters contained in the Management letter.

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Audit and Risk Committee Report

Performance Management

The Board also designated the Audit and Risk Committee as a Performance Audit Committee in terms of Municipal Planning and Performance Management Regulations 2001.

The Committee took note of the progress made regarding Performance Management System however; the Committee noted a gap in the submission of the quarterly performance reports. This was as a result of management's failure to circulate the reports in a timely manner to allow sufficient time for the Performance Audit and Risk Committee to exercise its oversight role. Accordingly the Committee expressed no opinion on the municipal entity's performance and noted insufficient performance reporting which management conceded to and undertook to address.

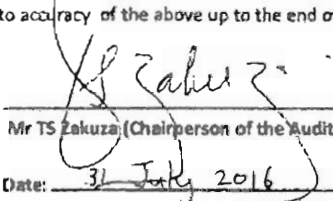
Risk Management

The Audit and Risk Committee was also satisfied with the risk management processes within the Institution.

The Audit and Risk Committee approved a combined assurance policy and framework that was adopted by the Board in February 2016. These documents would assist in the integration, coordination, and alignment of risk management and assurance processes within Centlec (SOC) Ltd, to optimize and maximize the level of risk, governance and control oversight over the risk landscape.

Quality review exercise was conducted on internal audit during the year under review and the overall outcome was one of compliance. This further gave the Audit and Risk committee comfort about the quality of work of the Internal audit.

As the term of the current Audit and Risk Committee ended on 31 July 2016, the committee was not engaged in the review of the 2015/16 annual financial statements and the discussion of the audit outcome. The Committee hereby confirms the status of the controls and attests to accuracy of the above up to the end of its term. We are unable to provide comment beyond our term of office.



Mr TS Zakuza (Chairperson of the Audit and Risk Committee)

Date: 31 July 2016

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Director's Report

The directors submit their report for the year ended 30 June 2016.

1. General information and nature of activities

The municipal entity, which is a state owned company, is incorporated and domiciled in South Africa and provides electricity retail, distribution and electrification services.

The municipal entity operates primarily in the Free State Province and employs over 321 people. The address of the municipal entity's registered office is 195 Nelson Mandela Drive, College Square Telkom Building, Bloemfontein, 9301.

The municipal entity is wholly owned by Mangaung Metropolitan Municipality, which is the sole parent municipality of the municipal entity and is domiciled in the Free State Province of South Africa. The address of the parent municipality is C/o Nelson Mandela Drive and Markgraaf Street, Bram Fischer Building, Bloemfontein, 9300.

The municipal entity is one of the only two state owned electricity companies in South Africa and the only one in the Free State Province.

Other than the area of jurisdiction of Mangaung Metropolitan Municipality, the municipal entity also distributes electricity to the following local municipalities in the Southern Free State area: Kopanong Local Municipality, Naledi Local Municipality, Mantsopa Local Municipality and Mohokare Local Municipality.

The municipal entity interacts with its customers and clients through a combination of physical and electronic channels, offering a comprehensive range of electricity services (from pre-paid electricity sales and billing through conventional metering, to electricity infrastructure development to bulk-to-point connection).

The financial statements set out fully the financial positions, results of operations and cash flows of the municipal entity for the reporting period ended 30 June 2016.

Main business and operations

The municipal entity is engaged in electricity distribution and operates principally in South Africa.

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

The municipal entity is continuously engaging with the relevant stakeholders in looking at their electricity rates spectrum and the results of this engagement is expected to have a positive effect on the municipal entity's profitability.

2. Going concern

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

The following analysis supports the going concern assumption:

Total assets (R 4 946 403 125) exceed total liabilities (R 2 739 064 895)

The municipal entity has an accumulated surplus and other reserves of R 2 207 338 230.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2016 and, in light of this review and the current financial position, management is satisfied that the municipal entity has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipal entity has implemented a system to enhance the entity's revenue collection and cash flow by improving on the debt recoverability processes.

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Director's Report

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year that would have an impact on the financial statements.

4. Accounting policies

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

5. Share capital / contributed capital

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

The entire shareholding of the municipal entity is held by Mangaung Metropolitan Municipality.

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

Authorised:

The authorised share capital of the company consists of 1 000 ordinary par value shares of R1 each.

Issued:

The issued total issued share capital of the company of R100 consists of 100 ordinary par value shares of R1 each.

6. Non-current assets

There were no major changes in the physical nature of non-current assets of the municipal entity during the year.

7. Directors

The current Board of Directors consists of seven (8) non-executive directors and three (3) executive directors. The current Board of directors were appointed with effect from 1 July 2016. The term of the previous Board ended in April 2016. Six (6) of the new Board members were appointed for a period of four (4) years effective from 1 July 2016. One (1) of the new Board members, Mrs. ZC Uwah, was appointed for a period of three (3) years effective from 1 February 2015.

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

Mr. N Mokhesi (Chairperson)	Reappointed 01 July 2016
Me. D Myeni (Deputy Chairperson)	Appointed 01 July 2016
Mr. KM Moroka	Reappointed 01 July 2016
Mrs. ZC Uwah	Appointed 01 February 2015
Mr. CAK Choebu	Appointed 01 July 2016
Mr. Ml Seoe	Appointed 01 July 2016
Mrs. N Mochochoko	Appointed 01 July 2016
Mr. M Mohale	Appointed 01 July 2016
Mr. ML Mbali (Chairperson)	Term ended 30 April 2016
Ms. FP Zitha (Deputy Chairperson)	Term ended 30 April 2016
Mr. TJ Mongake	Term ended 30 April 2016
Mr. SG Xulu	Term ended 30 April 2016
Mr. SM Zimu	Term ended 30 April 2016

8. Dividends

No dividends were declared or paid to the shareholder during the year.

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Director's Report

9. Company secretary

Phatshoane Henney Inc. was appointed to oversee the activities of the Company Secretary. Their contact details are as follows:

Business address:

17 Third Avenue
Westdene
Bloemfontein
South Africa
9300

Postal address:

PO Box 625
Bloemfontein
South Africa
9300

10. Member and executive managers' emoluments

Directors' and officers' personal financial interests in contracts

In term of Supply Chain Management Policy of the municipal entity, Directors and the municipal entity's officers are prohibited from entering into commercial transactions with the municipal entity.

Directors are required to disclose any business interest which they may have elsewhere.

The register of declaration of interest is available in the office of the Company Secretary for inspection.

Consistent with the Supply Chain Management Policy of the municipal entity, except for the remuneration to the executive managers and Board of Directors, none of the directors or officers entered into any commercial transaction with the municipal entity during the period under review.

Furthermore, the directors had no interest in any third party or company responsible for managing any of the business activities of the municipal entity.

Directors' and prescribed officers' emoluments

The upper limits of the salary, allowances and other benefits of the Directors, Prescribed Officers and Executive Managers were determined by the parent municipality. Directors, Prescribed Officers and Executive Managers emoluments are disclosed in the Annual Financial Statements.

11. Corporate governance

General

The directors are committed to business integrity, transparency and professionalism in all their activities. As part of this commitment, the directors support the highest standards of corporate governance and the ongoing development of best practice.

The municipal entity confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2009. The directors discuss the responsibilities of management in this respect at Board meetings and monitor the municipal entity's compliance with the code on a three monthly basis.

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Director's Report

Board of directors

The Board:

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

Chairperson and chief executive

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

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

Remuneration

The upper limits of the remuneration of the Chief Executive Officer, Chief operations officer and the Chief Financial Officer, who are the only three executive directors of the municipal entity, are determined by the Parent entity, and the directors will determine the remuneration within the above mentioned limits.

Executive meetings

The directors have met on 7 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum.

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

Internal audit

The municipal entity has outsourced its internal audit function to Price Waterhouse Coopers Inc who continued to perform this function from the previous year. This is in compliance with the Municipal Finance Management Act, Section 62(c)(i) & 165, 2003.

12. Controlling entity

The municipal entity's controlling entity is Mangaung Metropolitan Municipality incorporated in South Africa. The municipal entity is wholly owned by Mangaung Metropolitan Municipality.

13. Bankers

ABSA Limited

14. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)


Financial Statements for the year ended 30 June 2016

Company Secretary's Certification

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

In accordance with the provisions of the Companies Act 71 of 2008, Phatshoane Henney Inc, the Company Secretary of Centlec State Owned Company Ltd, hereby certify that:

In respect of the reporting period ended 30 June 2016, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission (CIPC), all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date



Phatshoane Henney Inc
Company Secretary of Centlec (SOC) Ltd

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	253 711 599	88 077 374
Consumer receivables from exchange transactions	4	428 024 727	278 679 274
Inventories	5	87 739 099	67 137 369
Investments	6	107 818 543	362 715 433
Other financial assets	7	295 545	295 545
Other receivables from exchange transactions	8	65 941 588	63 203 551
		943 531 101	860 108 546
Non-Current Assets			
Property, plant and equipment	9	3 757 086 990	3 634 942 307
Intangible assets	10	99 439 071	105 943 246
Other financial assets	7	2 454 516	4 033 323
Deferred tax	11	143 891 447	68 197 502
		4 002 872 024	3 813 116 378
Total Assets		4 946 403 125	4 673 224 924
Liabilities			
Current Liabilities			
Consumer deposits	12	127 743 335	70 796 810
Finance lease obligation	13	880 969	598 770
Long service awards	14	806 000	972 000
Operating lease liability	15	97 893	304 171
Other financial liabilities	16	427 079 388	165 773 693
Payables from exchange transactions	17	380 425 353	316 470 203
VAT liability	18	14 023 892	20 855 461
		951 056 830	575 771 108
Non-Current Liabilities			
Loans from shareholders	19	1 071 479 158	1 071 479 158
Other financial liabilities	16	246 511 198	412 210 140
Finance lease obligation	13	1 004 896	1 113 517
Operating lease liability	15	-	96 338
Deferred tax	11	462 929 813	391 523 240
Long service awards	14	6 083 000	2 899 000
		1 788 008 065	1 879 321 393
Total Liabilities		2 739 064 895	2 455 092 501
Net Assets		2 207 338 230	2 218 132 423

* See Note 44

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

		2016	2015
	Note(s)	R	Restated* R
Share capital / contributed capital	20	100	100
Reserves			
Revaluation reserve	21	1 073 440 534	1 091 235 212
Other NDR	22	60 000 000	60 000 000
Accumulated surplus		1 073 897 596	1 066 897 111
Total Net Assets		2 207 338 230	2 218 132 423

* See Note 44

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

		2016	2015
	Note(s)	R	Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	24	2 025 684 694	1 888 385 558
Agency services		4 788 455	4 750 908
Other income	25	6 922 117	54 899 798
Interest income	26	39 393 389	120 722 868
Total revenue from exchange transactions		2 076 788 655	2 068 759 132
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	27	26 315 789	26 491 228
Public contributions and donations	28	45 490 559	22 508 075
Total revenue from non-exchange transactions		71 806 348	48 999 303
Total revenue	29	2 148 595 003	2 117 758 435
Expenditure			
Employee related costs	30	138 082 857	96 127 307
Management fees	31	96 009 980	108 370 538
Depreciation and amortisation	32	140 021 292	82 408 486
Impairment loss/ (reversal of impairments)	33	5 126 463	499 722
Finance costs	34	192 678 240	280 149 947
(Reversal of) / Contributions to debt impairment provision	35	(70 253 514)	6 908 780
Repairs and maintenance		83 377 292	125 435 381
Bulk purchases	36	1 339 120 718	1 183 803 965
General expenses	37	220 704 195	211 784 693
Total expenditure		2 144 867 523	2 095 488 819
Operating surplus		3 727 480	22 269 616
Loss on disposal of assets and liabilities		(1 014 363)	(8 641 235)
Surplus before taxation		2 713 117	13 628 381
Taxation	38	4 287 372	83 243 365
Surplus for the year		7 000 489	96 871 746

* See Note 44

Centlec (SOC) Ltd

(Registration number 2003/011612/30)
Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

	Share capital / contributed capital R	Revaluation reserve R	Other NDR R	Total reserves R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	100	45 771 881	60 000 000	105 771 881	938 681 817	1 044 453 798
Adjustments						
Prior year adjustments	-	-	-	-	31 343 548	31 343 548
Balance at 01 July 2014 as restated*	100	45 771 881	60 000 000	105 771 881	970 025 365	1 075 797 346
Changes in net assets						
Revaluation	-	1 452 032 434	-	1 452 032 434	-	1 452 032 434
Net income (losses) recognised directly in net assets	-	1 452 032 434	-	1 452 032 434	-	1 452 032 434
Surplus/(Deficit) for the year	-	-	-	-	96 871 746	96 871 746
Total recognised income and expenses for the year	-	1 452 032 434	-	1 452 032 434	96 871 746	1 548 904 180
Deferred tax	-	(406 569 103)	-	(406 569 103)	-	(406 569 103)
Total changes	-	1 045 463 331	-	1 045 463 331	96 871 746	1 142 335 077
Opening balance as previously reported	100	1 091 235 212	60 000 000	1 151 235 212	952 986 291	2 104 221 603
Adjustments						
Prior year adjustments	-	-	-	-	113 910 816	113 910 816
Restated* Balance at 01 July 2015 as restated*	100	1 091 235 212	60 000 000	1 151 235 212	1 066 897 107	2 218 132 419
Changes in net assets						
Impairment losses on revalued capital assets	-	(17 794 678)	-	(17 794 678)	-	(17 794 678)
Net income (losses) recognised directly in net assets	-	(17 794 678)	-	(17 794 678)	-	(17 794 678)
Surplus for the year	-	-	-	-	7 000 489	7 000 489
Total recognised income and expenses for the year	-	(17 794 678)	-	(17 794 678)	7 000 489	(10 794 189)
Total changes	-	(17 794 678)	-	(17 794 678)	7 000 489	(10 794 189)
Balance at 30 June 2016	100	1 073 440 534	60 000 000	1 133 440 534	1 073 897 596	2 207 338 230
Note(s)	20	21	22			

* See Note 44

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		1 955 565 290	2 100 915 840
Grants, public contributions and donations		71 806 348	48 999 303
Interest income		39 393 389	44 874 574
		<u>2 066 765 027</u>	<u>2 194 789 717</u>
Payments			
Employee costs		(138 082 857)	(96 127 307)
Suppliers		(1 837 261 179)	(1 860 279 739)
Finance costs		(7 774)	(4 367)
		<u>(1 975 351 810)</u>	<u>(1 956 411 413)</u>
Net cash flows from operating activities	39	<u>91 413 217</u>	<u>238 378 304</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(270 800 862)	(279 962 321)
Proceeds from sale of property, plant and equipment	9	664 200	3 206 150
Purchase of intangible assets	10	(6 741 419)	(16 277 674)
Investments		254 896 890	(130 297 217)
(Purchase of)/Proceeds from sale of financial assets		1 578 807	(737 899)
Net cash flows from investing activities		<u>(20 402 384)</u>	<u>(424 068 961)</u>
Cash flows from financing activities			
Proceeds from/(Repayment of) other financial liabilities		95 606 753	-
Finance lease payments		(983 361)	(249 853)
Net cash flows from financing activities		<u>94 623 392</u>	<u>(249 853)</u>
Net increase/(decrease) in cash and cash equivalents		165 634 225	(185 940 510)
Cash and cash equivalents at the beginning of the year		88 077 374	274 017 884
Cash and cash equivalents at the end of the year	3	<u>253 711 599</u>	<u>88 077 374</u>

* See Note 44

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	2 235 384 355	-	2 235 384 355	2 025 684 694	(209 699 661)	Note 53
Agency services	4 788 455	-	4 788 455	4 788 455	-	Note 53
Other income	57 206 799	-	57 206 799	6 922 117	(50 284 682)	Note 53
Interest income	32 953 445	-	32 953 445	39 393 389	6 439 944	Note 53
Total revenue from exchange transactions	2 330 333 054	-	2 330 333 054	2 076 788 655	(253 544 399)	

Revenue from non-exchange transactions

Transfer revenue

Government grants & subsidies	26 315 789	-	26 315 789	26 315 789	-	Note 53
Public contributions and donations	20 952 879	-	20 952 879	45 490 559	24 537 680	Note 53
Total revenue from non-exchange transactions	47 268 668	-	47 268 668	71 806 348	24 537 680	
Total revenue	2 377 601 722	-	2 377 601 722	2 148 595 003	(229 006 719)	

Expenditure

Employee related costs	(136 854 872)	-	(136 854 872)	(138 082 857)	(1 227 985)	Note 53
Management fees	(100 000 000)	-	(100 000 000)	(96 009 980)	3 990 020	Note 53
Depreciation and amortisation	(81 100 000)	-	(81 100 000)	(140 021 292)	(58 921 292)	Note 53
Impairment loss/ Reversal of impairments	-	-	-	(5 126 463)	(5 126 463)	Note 53
Finance costs	(143 535 589)	-	(143 535 589)	(192 678 240)	(49 142 651)	Note 53
Debt impairment	(18 000 000)	-	(18 000 000)	70 253 514	88 253 514	Note 53
Repairs and maintenance	(93 707 584)	-	(93 707 584)	(83 377 292)	10 330 292	Note 53
Bulk purchases	(1 285 840 872)	-	(1 285 840 872)	(1 339 120 718)	(53 279 846)	Note 53
General expenses	(272 359 832)	-	(272 359 832)	(220 704 195)	51 655 637	Note 53
Total expenditure	(2 131 398 749)	-	(2 131 398 749)	(2 144 867 523)	(13 468 774)	
Operating surplus	246 202 973	-	246 202 973	3 727 480	(242 475 493)	
Loss on disposal of assets and liabilities	269 750	-	269 750	(1 014 363)	(1 284 113)	Note 53
Surplus before taxation	246 472 723	-	246 472 723	2 713 117	(243 759 606)	
Taxation	-	-	-	(4 287 372)	(4 287 372)	Note 53
Actual Amount on Comparable Basis	246 472 723	-	246 472 723	7 000 489	(239 472 234)	

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Position

Assets

Current Assets

Inventories	85 562 251	-	85 562 251	87 739 099	2 176 848	Note 53
Investments	368 813 671	-	368 813 671	107 818 543	(260 995 128)	Note 53
Other receivables from exchange transactions	255 661 014	-	255 661 014	65 941 588	(189 719 426)	Note 53
Consumer receivables from exchange transactions	212 515 013	-	212 515 013	428 024 727	215 509 714	Note 53
Cash and cash equivalents	46 828 518	-	46 828 518	253 711 599	206 883 081	Note 53
	969 380 467	-	969 380 467	943 235 556	(26 144 911)	

Non-Current Assets

Property, plant and equipment	3 732 877 574	-	3 732 877 574	3 757 086 990	24 209 416	Note 53
Intangible assets	104 115 606	-	104 115 606	99 439 071	(4 676 535)	Note 53
Other financial assets	2 406 972	-	2 406 972	2 750 061	343 089	Note 53
Deferred tax	-	-	-	143 891 447	143 891 447	Note 53
	3 839 400 152	-	3 839 400 152	4 003 167 569	163 767 417	
Total Assets	4 808 780 619	-	4 808 780 619	4 946 403 125	137 622 506	

Liabilities

Current Liabilities

Payables from exchange transactions	381 986 796	-	381 986 796	380 425 352	(1 561 444)	Note 53
VAT liability	-	-	-	14 023 892	14 023 892	Note 53
Consumer deposits	70 487 108	-	70 487 108	127 743 335	57 256 227	Note 53
	452 473 904	-	452 473 904	522 192 579	69 718 675	

Non-Current Liabilities

Loans from shareholders	1 314 399 286	-	1 314 399 286	1 071 479 158	(242 920 128)	Note 53
Other non-current financial liabilities	472 274 320	-	472 274 320	673 590 586	201 316 266	Note 53
Finance lease obligation	1 299 344	-	1 299 344	1 885 865	586 521	Note 53
Operating lease liability	119 133	-	119 133	97 893	(21 240)	Note 53
Deferred tax	-	-	-	462 929 813	462 929 813	Note 53
Long service awards	5 509 176	-	5 509 176	6 889 000	1 379 824	Note 53
	1 793 601 259	-	1 793 601 259	2 216 872 315	423 271 056	
Total Liabilities	2 246 075 163	-	2 246 075 163	2 739 064 894	492 989 731	
Net Assets	2 562 705 456	-	2 562 705 456	2 207 338 231	(355 367 225)	

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Net Assets						
Net Assets Attributable to Controlling Entity						
Share capital	100	-	100	100	-	Note 53
Reserves						
Revaluation reserve	781 684 965	-	781 684 965	1 073 440 534	291 755 569	Note 53
Other NDR	60 000 000	-	60 000 000	60 000 000	-	Note 53
Accumulated surplus	1 721 020 391	-	1 721 020 391	1 073 897 597	(647 122 794)	Note 53
Total Net Assets	2 562 705 456	-	2 562 705 456	2 207 338 231	(355 367 225)	

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	2 240 989 853	-	2 240 989 853	1 955 565 290	(285 424 563)
Grants, public contributions and donations	34 075 789	-	34 075 789	71 806 348	37 730 559
Interest income	31 964 842	-	31 964 842	39 393 389	7 428 547
	2 307 030 484	-	2 307 030 484	2 066 765 027	(240 265 457)

Payments

Suppliers and employee costs	(2 026 652 879)	-	(2 026 652 879)	(1 975 344 036)	51 308 843
Finance costs	-	-	-	(7 774)	(7 774)
	(2 026 652 879)	-	(2 026 652 879)	(1 975 351 810)	51 301 069

Net cash flows from operating activities	280 377 605	-	280 377 605	91 413 217	(188 964 388)
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Cash flows from investing activities

Purchase of property, plant and equipment	(233 816 587)	-	(233 816 587)	(270 800 862)	(36 984 275)
Proceeds from sale of property, plant and equipment	267 500	-	267 500	664 200	396 700
Purchase of other intangible assets	-	-	-	(6 741 419)	(6 741 419)
Investments	-	-	-	254 896 890	254 896 890
Proceeds from sale of financial assets	-	-	-	1 578 807	1 578 807
Net cash flows from investing activities	(233 549 087)	-	(233 549 087)	(20 402 384)	213 146 703

Cash flows from financing activities

Proceeds from / (Repayment of) other financial liabilities	-	-	-	95 606 753	95 606 753
Finance lease payments	-	-	-	(983 361)	(983 361)
Net cash flows from financing activities	-	-	-	94 623 392	94 623 392

Net increase/(decrease) in cash and cash equivalents	46 828 518	-	46 828 518	165 634 225	118 805 707
Cash and cash equivalents at the beginning of the year	368 813 670	-	368 813 670	88 077 374	(280 736 296)
Cash and cash equivalents at the end of the year	415 642 188	-	415 642 188	253 711 599	(161 930 589)

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Appropriation Statement - Unaudited

	Original budget		Budget adjustments (i.t.o. s28 and s31 of the MFMA)		Final adjustments budget		Shifting of funds Virement (i.t.o. of the council approved policy)		Final budget		Actual outcome		Unauthorised expenditure		Variance		Actual outcome as % of final budget		Actual outcome as % of original budget	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
2016																				
Financial Performance																				
Service charges	2 385 422 917	(150 038 562)		2 235 384 355	-				2 235 384 355	2 025 684 694					(209 699 661)		91 %		85 %	
Investment revenue	39 173 560	(6 220 115)		32 953 445	-				32 953 445	39 393 389					6 439 944		120 %		101 %	
Other own revenue	57 307 465	4 957 539		62 265 004	-				62 265 004	11 710 572					(50 554 432)		19 %		20 %	
Total revenue (excluding capital transfers and contributions)	2 481 903 942	(151 301 138)		2 330 602 804	-				2 330 602 804	2 076 788 655					(253 814 149)		89 %		84 %	
Employee costs	(277 167 929)	140 313 057		(136 854 872)	-				(136 854 872)	(138 082 857)					(1 227 985)		101 %		50 %	
Debt impairment	(18 000 000)	-		(18 000 000)	-				(18 000 000)	70 253 514					88 253 514		(390)%		(390)%	
Depreciation and asset impairment	(116 607 661)	35 507 661		(81 100 000)	-				(81 100 000)	(145 147 755)					(64 047 755)		179 %		124 %	
Finance charges	(135 440 099)	(8 095 490)		(143 535 589)	-				(143 535 589)	(192 678 240)					(49 142 651)		134 %		142 %	
Materials and bulk purchases	(1 290 800 872)	4 960 000		(1 285 840 872)	-				(1 285 840 872)	(1 339 120 718)					(53 279 846)		104 %		104 %	
Other expenditure	(468 417 357)	2 349 941		(466 067 416)	-				(466 067 416)	(401 105 830)					64 961 586		86 %		86 %	
Total expenditure	(2 306 433 918)	175 035 169		(2 131 398 749)	-				(2 131 398 749)	(2 145 881 886)					(14 483 137)		101 %		93 %	
Surplus/(Deficit)	175 470 024	23 734 031		199 204 055	-				199 204 055	(69 093 231)					(268 297 286)		(35)%		(39)%	

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Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget		Budget adjustments		Final adjustments		Shifting of funds Virement (i.t.o. MFMA)		Final budget		Actual outcome		Unauthorised expenditure		Variance		Actual outcome as % of final budget		Actual outcome as % of original budget	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	26 315 789	-	-	26 315 789	-	-	-	26 315 789	26 315 789	26 315 789	-	-	-	-	-	-	100 %	100 %	100 %	100 %
Contributions recognised - capital and contributed assets	20 952 879	-	-	20 952 879	-	-	-	20 952 879	20 952 879	45 490 559	-	-	-	-	24 537 680	217 %	217 %	217 %	217 %	217 %
Surplus (Deficit) after capital transfers and contributions	222 738 692	23 734 031	246 472 723	246 472 723	-	-	-	246 472 723	246 472 723	2 713 117	(243 759 606)	1 %	1 %	1 %	1 %	1 %	1 %	1 %	1 %	1 %
Taxation	-	-	-	-	-	-	-	-	-	(4 287 372)	(4 287 372)	DIV/0 %	DIV/0 %	DIV/0 %	(4 287 372)	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	222 738 692	23 734 031	246 472 723	246 472 723	-	-	-	246 472 723	246 472 723	7 000 489	(239 472 234)	3 %	3 %	3 %	(239 472 234)	3 %	3 %	3 %	3 %	3 %
Capital expenditure and funds sources																				
Total capital expenditure	325 356 850	(79 234 127)	246 122 723	246 122 723	-	-	-	246 122 723	246 122 723	246 229 941	107 218	100 %	100 %	100 %	107 218	100 %	100 %	100 %	100 %	100 %
Sources of capital funds																				
Transfers recognised - capital	26 315 789	-	-	26 315 789	-	-	-	26 315 789	26 315 789	26 315 711	(78)	100 %	100 %	100 %	(78)	100 %	100 %	100 %	100 %	100 %
Public contributions and donations	20 952 879	-	-	20 952 879	-	-	-	20 952 879	20 952 879	15 113 201	(5 839 678)	72 %	72 %	72 %	(5 839 678)	72 %	72 %	72 %	72 %	72 %
Internally generated funds	278 088 182	(79 234 127)	198 854 055	198 854 055	-	-	-	198 854 055	198 854 055	204 801 029	5 946 974	103 %	103 %	103 %	5 946 974	103 %	103 %	103 %	103 %	103 %
Total sources of capital funds	325 356 850	(79 234 127)	246 122 723	246 122 723	-	-	-	246 122 723	246 122 723	246 229 941	107 218	100 %	100 %	100 %	107 218	100 %	100 %	100 %	100 %	100 %

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with 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 (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

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

A summary of the significant accounting policies are disclosed below.

Centlec (SOC) Ltd ("the municipal entity") is a municipal entity wholly owned by Mangaung Metropolitan Municipality.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand and the amounts are rounded off to the nearest Rand. The South African Rand is the functional currency of the municipal entity.

1.2 Going concern assumption

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

The following analysis supports the going concern assumption:

Total assets (R 4 946 403 125) exceed total liabilities (R 2 739 064 895)

The municipal entity has an accumulated surplus and other reserves of R 2 207 338 230.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2016 and, in light of this review and the current financial position, management is satisfied that the municipal entity has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipal entity has implemented a system to enhance the entity's revenue collection and cash flow by improving on the debt recoverability processes.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables and/or loans and receivables

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

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete inventory items

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus & deficit note.

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipal entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipal entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes to the financial statements.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipal entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipal entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipal entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipal entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

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

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

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

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

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

Tax expense

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

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

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipal entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipal entity.

Effective interest rate

The municipal entity used the prime interest rate to discount future cash flows.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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 municipal entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipal entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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Accounting Policies

1.4 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement:

Cost model

Motor vehicles and office equipment are carried at cost less accumulated depreciation and any impairment losses.

Revaluation model

Land, buildings, plant and machinery and infrastructure assets are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of asset.

The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit by way of, either:

- Through the use of the asset: transferring the portion as the asset to which the surplus relates to is depreciated; or
- When the asset is derecognised: transferring the portion when the asset to which the surplus relates to is disposed."

An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

Depreciation

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

Depreciation is calculated over the depreciable amount, which is the cost or revaluation amount of an asset less its residual value.

Depreciation commences when an asset is available for use and ceases when the asset is derecognised.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Accounting Policies

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	
• Office buildings		40 years
• Training centres		40 years
• Fixtures & fittings		3 years
Motor vehicles	Straight line	
• Trucks and light delivery vehicles		5-7 years
• Ordinary motor vehicles		5-7 years
• Motor cycles		3 years
Office equipment	Straight line	
• Computer hardware		5 years
• Computer machines		3-5 years
• Air conditioners		5-7 years
• Chairs		7-10 years
• Tables and desks		7-10 years
• Cabinets and cupboards		7-10 years
• Access control systems		5 years
• Security systems		5 years
• Household refuse bins		5 years
• Bulk refuse containers		10 years
• Fire hoses		5 years
• Other fire-fighting equipment		15 years
• Emergency lights		5 years
Infrastructure	Straight line	
• Generation		50 years
• HV Transformers		40 years
• HV Substation Equipment		45 years
• HV Lines		40 years
• HV Cables		45 years
• Buildings		50 years
• MV Transformers		40 years
• MV Switchgear		45 years
• MV Lines		50 years
• MV Cables		50 years
• MV Switching Station		45 years
• OH Line Equipment		40 years
• Service Connections		45 years
• LV Distribution Boxes		50 years
• LV Lines		45 years
• LV Cables		50 years
• Meters Consumer Credit		20 years
• Meters Consumer Prepaid		15 years
• Meter Consumer Electronic		15 years
• Meters Consumer Smart		15 years
• Load Control		15 years
• Protection		20 years
• Electrical Information Systems		7 years
• IT Equipment		5 years
• MV Batteries		20 years
• Security fencing		3 years
• Street lights		45 years

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Accounting Policies

1.4 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipal entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipal entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipal entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Initial recognition

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 municipal entity; and
- the cost or fair value of the asset can be measured reliably.

The municipal 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.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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Accounting Policies

1.5 Intangible assets (continued)

Subsequent measuring

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

Servitudes are subsequently measured in accordance with the revaluation model.

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

Other intangible assets that are acquired by the municipal entity and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. However, servitudes that are created through an agreement (contract) are recognised as intangible assets.

Subsequent expenditure

Expenditure on intangible assets shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. All other expenditure, including expenditure on internally generated goodwill and customer lists, is recognised in surplus or deficit as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Servitudes are not amortised as their nature are the same as that of land, which is not a depreciable item.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	Useful life
Computer software and licenses	1-5 years

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of financial performance.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the statement of financial performance when the asset is derecognised.

Intangible assets are derecognised:

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

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Accounting Policies

1.6 Commitments

The term 'commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipal entity of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

The municipal entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation is disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipal entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.7 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.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or -liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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Accounting Policies

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or -liability (or group of financial assets or -liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

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 municipal entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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 municipal entity.

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

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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Accounting Policies

1.7 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipal entity had not acquired, issued or disposed of the financial instrument.

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

- the municipal entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition in accordance with paragraph 17 of GRAP 104; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Other financial assets	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Consumer receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Other non-current liabilities	Financial liability measured at amortised cost
Other current liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

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Accounting Policies

1.7 Financial instruments (continued)

Initial recognition

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

The municipal entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipal entity measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipal entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipal entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipal entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipal entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipal entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Short-term receivables and payables are not discounted where the initial credit period granted or received consistent with terms is used in the public sector, either through established practices or legislation.

Reclassification

The municipal entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipal entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipal entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipal entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

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1.7 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

For amounts due to the municipal entity, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

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1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipal entity derecognises financial assets using trade date accounting.

The municipal entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipal entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipal entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipal entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipal entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipal entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipal entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipal entity recognise the new financial asset, financial liability or servicing liability at fair value.

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipal entity has retained substantially all the risks and rewards of ownership of the transferred asset, the municipal entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipal entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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1.7 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the municipal entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax (where applicable) relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipal 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 municipal entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of 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 amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.8 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 or 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.

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Accounting Policies

1.8 Tax (continued)

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.

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

Value added tax (VAT)

The municipal entity is registered with the South African Revenue Services (SARS) for VAT on the payments/cash basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991) and accounts for VAT on this basis. The municipal entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

1.9 Leases

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

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

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1.9 Leases (continued)

Finance leases - municipal entity as lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or where no interest rate implicit in the lease is available, the rate used is the municipal entity's incremental borrowing rate.

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

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

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipal entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipal entity.

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Accounting Policies

1.10 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

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

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.

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:

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

Identification

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

The municipal 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 municipal entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipal entity also test 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.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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 municipal entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipal entity applies the appropriate discount rate to those future cash flows.

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the value in use.

Basis for estimates of future cash flows

In measuring value in use the municipal 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 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 municipal 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 municipal 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.

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1.11 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 municipal 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 municipal 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 municipal 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 municipal 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.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipal 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 municipal 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.

1.12 Impairment of non-cash-generating assets

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.

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

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

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:

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

Identification

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

The municipal 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 municipal entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipal 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.

Value in use

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the 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 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 municipal entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned 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.

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

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

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

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

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

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

Redesignation

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

1.13 Share capital / contributed capital

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

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1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits

The Board is demonstrably committed to a termination when the Board has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes as a minimum:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from the municipal entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipal entity has indicated to other parties that it will accept certain responsibilities and as a result, the municipal entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipal entity during a reporting period, the municipal entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipal entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipal entity measure the expected cost of accumulating compensated absences as the additional amount that the municipal entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipal entity recognise the expected cost of bonus, incentive and performance related payments when the municipal entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipal entity has no realistic alternative but to make the payments.

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1.14 Employee benefits (continued)

Other long-term employee benefits

For long service awards the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries.

Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

Gains or losses on the curtailment or settlement of long service awards are recognised when the municipal entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle the long service awards, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a long service award is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the long service award obligation minus the fair value of plan assets, if any.

Actuarial assumptions are included in the note of long service awards.

The municipal entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipal entity has a present obligation 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 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.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipal entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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.

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1.15 Provisions and contingencies (continued)

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.

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

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipal entity

No obligation arises as a consequence of the sale or transfer of an operation until the municipal entity is committed to the sale or transfer, that is, there is a binding arrangement.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.16 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.

An exchange transaction is one in which the municipal entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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.

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1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipal entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipal entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service charges

Service charges relating to distribution of electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

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1.17 Revenue from non-exchange transactions

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

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipal entity and 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.

Recognition

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 municipal 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.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipal entity.

When, as a result of a non-exchange transaction, the municipal 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.