

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

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

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

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

1.21 Comparative figures

When the presentation or classification of an item in the annual financial statements are amended, comparative amounts are reclassified.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. Detailed disclosure have been made in the notes to the financial statements as required by MFMA.

1.23 Irregular expenditure

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

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised when revalued buildings and infrastructure is disposed off or impaired, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Investments

Where the carrying amount of an investment 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.

1.26 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.27 Related parties

The municipal entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after reporting date

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

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

The municipal entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event has occurred.

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

1.29 Accumulated surplus

The municipal entity's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipal entity. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

The entity expects to adopt the standard for the first time in the 2017 financial statements.

The impact of this standard is currently being assessed.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The entity expects to adopt the standard for the first time in the 2018 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The entity expects to adopt the standard for the first time in the 2018 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	251 908 438	21 310 819
Short-term deposits	1 803 161	66 766 555
	253 711 599	88 077 374

Short-term deposits consist of:

ABSA - 32 Day call account	-	66 544 328
ABSA - 1 Day call account	1 803 161	222 227
	1 803 161	66 766 555

Short-term deposits consists of the following short-term investments with ABSA. The details and interest earned on these investments are set out below:

- ABSA 32 Day call account with varying interest rates between 5.61% and 7.20% depending on the amount invested and the change in the prime interest rate. All funds were withdrawn from this investment at 30 June 2016 and no re-investment was made.

- ABSA 1 Day call account with varying interest rates between 0.00% and 6.70% depending on the amount invested and the change in the prime interest rate.

The municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Cheque account - 4058833582	271 089 053	18 939 560	30 473 525	237 918 957	19 406 828	34 324 866
ABSA Bank - Cheque account - 4055133721	22	289	55	22	289	55
ABSA Bank - Cheque account - 4054065339	264 629	79 266	142 041	261 746	79 266	142 041
ABSA Bank - Cheque account - 470001402	4 274 365	2 243 518	7 032 350	4 220 785	2 189 938	6 978 770
ABSA Bank - Cheque account - 4054530924	18 145	17 779	8 424	18 145	17 779	(6 530)
ABSA Bank - Cheque account - 4078209583	11 181 230	1 304 309	202 707	9 459 886	(430 655)	(1 795 792)
ABSA Bank - Cheque account - 4080522070	22 462	21 268	21 344	22 462	21 268	21 344
ABSA Bank - Cheque account - 4080521896	6 435	26 106	6 970	6 435	26 106	6 970
Total	286 856 341	22 632 095	37 887 416	251 908 438	21 310 819	39 671 724

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
4. Consumer receivables from exchange transactions		
Gross balances		
Electricity	752 062 909	688 868 436
Less: Allowance for impairment		
Electricity	(324 038 182)	(410 189 162)
Net balance		
Electricity	428 024 727	278 679 274
Electricity		
Current (0 -30 days)	166 428 829	108 444 535
31 - 60 days	55 629 462	48 936 037
61 - 90 days	14 812 381	17 741 530
91 - 120 days	359 410 364	361 526 473
Meter reading estimate at year end	156 266 248	154 421 694
Accrual prepaid sales	(39 983)	(39 983)
Discounting	(101 301)	(535 499)
Transferred to non-current receivables	(343 091)	(1 626 351)
	752 062 909	688 868 436
Summary of debtors by customer classification		
Residential and sundry		
Current (0 -30 days)	17 323 081	17 609 693
31 - 60 days	6 559 003	13 571 932
61 - 90 days	3 608 201	5 789 796
90+ days	141 454 352	170 092 615
	168 944 637	207 064 036
Business/Commercial and municipal		
Current (0 -30 days)	134 652 375	71 965 603
31 - 60 days	35 194 226	24 357 835
61 - 90 days	10 812 492	7 624 370
90+ days	209 219 833	134 686 682
	389 878 926	238 634 490
Government		
Current (0 -30 days)	14 453 373	18 869 239
31 - 60 days	13 876 234	11 006 270
61 - 90 days	391 688	4 327 363
90+ days	8 736 179	56 747 175
	37 457 474	90 950 047

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
4. Consumer receivables from exchange transactions (continued)		
Total		
Current (0 -30 days)	166 428 829	108 444 535
31 - 60 days	55 629 462	48 936 037
61 - 90 days	14 812 381	17 741 530
90+ days	359 410 364	361 526 473
	<u>596 281 036</u>	<u>536 648 575</u>
Provision for debt impairment	(324 038 182)	(410 189 162)
Meter reading estimate	156 266 248	154 421 693
Accrual prepaid sales	(39 983)	(39 983)
Discounting	(101 301)	(535 498)
Transferred to non-current receivables	(343 091)	(1 626 351)
	<u>428 024 727</u>	<u>278 679 274</u>
Provision for debt impairment		
Provision for debt impairment	<u>(324 038 182)</u>	<u>(410 189 162)</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(410 189 162)	(402 512 277)
Contributions to allowance	-	(7 676 885)
Debt impairment written off against allowance	15 897 466	-
Reversal of allowance	70 253 514	-
	<u>(324 038 182)</u>	<u>(410 189 162)</u>
Consumer receivables pledged as security		
No consumer receivables were pledged as security in the current or prior financial period.		
Fair value of consumer receivables		
Consumer receivables are reflected net of the provision for doubtful debt and the effect of discounting. The interest rate used in discounting is the prime rate at period end adjusted for CPI applicable to the public sector.		
Consumer debtors past due but not impaired		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 272 242 853 (2015: R 126 363 409) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
Current (0 -30 days)	146 056 880	92 866 849
31 - 60 days	43 655 132	26 239 769
61 - 90 days	2 874 780	3 404 543
90+ days	79 656 062	3 852 248
	<u>272 242 854</u>	<u>126 363 409</u>

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

4. Consumer receivables from exchange transactions (continued)

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R 324 038 182 (2015: R 410 189 162) were impaired and provided for.

The ageing of these consumer debtors is as follows:

Current (0 -30 days)	20 371 949	15 577 686
31 - 60 days	11 974 330	22 696 268
61 - 90 days	11 937 601	14 336 987
90+ days	279 754 302	357 578 221
	<u>324 038 182</u>	<u>410 189 162</u>

The municipal entity enters into settlement agreements with debtors whose accounts are long overdue and these agreements carry no interest. The balance that is settled over a period longer than 12 months is deemed to constitute a financing arrangement and is accounted for at the net present value of the future cash flows. The accounts which are due for more than 12 months are disclosed as non-current receivables.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Unwinding of discount is included in the notes to the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of consumer receivable mentioned above. The municipal entity does not hold any collateral as security.

Fair value of the consumer debtors approximates the carrying value at year end.

5. Inventories

Raw materials, components	89 663 122	67 323 722
	<u>89 663 122</u>	<u>67 323 722</u>
Inventories (write-downs)	(1 924 023)	(186 353)
	<u>87 739 099</u>	<u>67 137 369</u>

An assessment of the net realisable value against cost was performed and inventory was written down.

Inventories that were recognised as stores issues during the year amounted to R66 428 489.36 (2015: R90 088 035), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
6. Investments		
Bank investments		
Nedbank The investment was a short-term 365 day fixed deposit which earned interest at 7.92%. The investment matured on 30 June 2016. No re-investment was made.	-	139 614 679
First National Bank The investment was a short-term 365 day fixed deposit which earned interest at 7.07%. The investment matured on 1 July 2015. No re-investment was made.	-	107 303 639
ABSA The investment was a short-term 365 day fixed deposit which earned interest at 8.01%. The investment matured on 30 June 2016. A re-investment was made on 30 June 2016 as a new short-term 365 day fixed deposit which earns interest at 9.00%.	107 818 543	115 797 115
	107 818 543	362 715 433
Fair value of the investments approximates the carrying value at year-end.		
7. Other financial assets		
Loans and receivables		
Kopanong Local Municipality The capital funding provided to Kopanong Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	1 449 289	1 629 218
Mohokare Local Municipality The capital funding provided to Mohokare Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	777 003	872 545
Naledi Local Municipality The capital funding provided to Naledi Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	180 678	200 754
Consumer debtors - Arrangements Consumer debtors with arrangements which stretches over a period longer than 12 months.	343 091	1 626 351
	2 750 061	4 328 868
Non-current assets		
Loans and receivables	2 454 516	4 033 323
Current assets		
Loans and receivables	295 545	295 545

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

7. Other financial assets (continued)

Financial assets at fair value

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of the other financial assets approximates the carrying value at year end.

Financial assets pledged as security

None of the financial assets were pledged as security for any financial liabilities and no securities are held for any of the financial assets.

8. Other receivables from exchange transactions

Deposits	824 195	725 341
DOE Grant - Southern Free State Towns	5 066 942	5 087 728
Insurance debtor	112 797	112 797
Kopanong Local Municipality	11 679 112	14 618 595
Mohokare Local Municipality	23 570 114	18 384 364
Naledi Local Municipality	18 211 738	15 434 905
Other receivables	1 641 956	5 273 434
Prepaid expenses	540 543	509 299
Receipt reversal	407 504	2 665
Vendors	3 886 687	3 054 423
	65 941 588	63 203 551

Other receivables pledged as security

No other receivables from exchange transactions were pledged as security for overdraft facilities of the municipal entity.

Fair value of other receivables

The creation and release of provision for impaired receivables have been included in expenses in surplus or deficit.

Unwinding of discount is included in interest received in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipal entity does not hold any collateral as security.

Fair value of other receivables approximates the carrying value at year end.

Centlec (SOC) Ltd

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

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9 859 500	-	9 859 500	9 859 500	-	9 859 500
Buildings	79 639 757	(4 619 054)	75 020 703	79 639 757	(1 564 685)	78 075 072
Infrastructure	3 994 152 728	(400 485 895)	3 593 666 833	3 761 998 250	(297 013 800)	3 464 984 450
Motor vehicles	103 469 470	(54 941 164)	48 528 306	102 188 616	(48 014 377)	54 174 239
Office equipment	51 113 724	(23 006 489)	28 107 235	42 503 043	(16 358 726)	26 144 317
Leased assets	2 860 682	(956 269)	1 904 413	2 064 836	(360 107)	1 704 729
Total	4 241 095 861	(484 008 871)	3 757 086 990	3 998 254 002	(363 311 695)	3 634 942 307

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Capital work in progress	Disposals	Revaluation surplus realised	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	-	-	-	9 859 500
Buildings	78 075 072	-	-	-	-	(3 054 369)	-	75 020 703
Infrastructure	3 464 984 450	294 974 067	(39 947 588)	(927 581)	(17 794 678)	(104 245 312)	(3 376 525)	3 593 666 833
Motor vehicles	54 174 239	5 461 190	-	(315 874)	-	(10 791 249)	-	48 528 306
Office equipment	26 144 317	10 313 192	-	(434 439)	-	(7 915 835)	-	28 107 235
Leased Assets	1 704 729	969 285	-	(669)	-	(768 932)	-	1 904 413
	3 634 942 307	311 717 734	(39 947 588)	(1 678 563)	(17 794 678)	(126 775 697)	(3 376 525)	3 757 086 990

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Capital work in progress	Disposals	Revaluations	Depreciation	Impairment loss	Total
Land	7 560 000	-	-	-	2 299 500	-	-	9 859 500
Buildings	54 617 859	253 219	-	-	26 528 789	(3 324 795)	-	78 075 072
Infrastructure	1 859 262 894	166 787 217	78 408 478	(10 728 770)	1 423 204 145	(51 949 514)	-	3 464 984 450
Motor vehicles	43 165 597	23 057 436	-	(689 796)	-	(10 999 089)	(359 909)	54 174 239
Office equipment	20 933 396	11 455 971	-	(428 819)	-	(5 816 231)	-	26 144 317
Leased Assets	285 002	1 623 993	-	-	-	(204 266)	-	1 704 729
	1 985 824 748	203 177 836	78 408 478	(11 847 385)	1 452 032 434	(72 293 895)	(359 909)	3 634 942 307

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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9. Property, plant and equipment (continued)

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

Revaluations

The effective date of the revaluations for land and buildings was year end 30 June 2015. Revaluations for land and buildings were performed by the independent valuers, Mr. Theunis Hendrik Myburgh & Mr. Raymond Taylor, professional valuers in terms of the Valuers' Act (Act 23 of 1982) of Equity Valuers. Equity Valuers is not connected to the municipal entity.

The effective date of the revaluations for the infrastructure assets was year end 30 June 2015. Revaluations for infrastructure assets was performed by an independent valuer, Mr. Frederick Coenraad Edward van der Merwe, BSc(Electrical), Professional Engineer (Reg.no 9770135), Engineering Council of South Africa and member of the South African Institute of Electrical Engineers (Reg.no 11180) from FCE Consulting Engineers. FCE Consulting Engineers is not connected to the municipal entity.

The valuations were performed using the depreciated replacement costs method.

Restrictions on title

Carrying value of assets not yet legally transferred from Mangaung Metropolitan Municipality to Centlec (SOC) Ltd in accordance with the Sale of Business agreement:

Land and buildings	84 360 976	86 298 492
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The intention of the sale of business agreement was to sell the land and buildings to the municipal entity for operational usage. The municipal entity has been using the land and buildings for operational usage since inception, 1 July 2005, but as at year end 30 June 2016 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity.

84 360 976	86 298 492
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Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	218 097 058	218 097 058
Additions/capital expenditure	69 299 570	69 299 570
Transferred to completed items	(109 247 160)	(109 247 160)
	178 149 468	178 149 468

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	139 688 579	139 688 579
Additions/capital expenditure	99 370 731	99 370 731
Transferred to completed items	(20 962 252)	(20 962 252)
	218 097 058	218 097 058

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipal entity.

10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	40 067 460	(25 209 622)	14 857 838	41 617 914	(20 134 589)	21 483 325
Servitudes	84 581 233	-	84 581 233	84 459 921	-	84 459 921
Total	124 648 693	(25 209 622)	99 439 071	126 077 835	(20 134 589)	105 943 246

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software and licenses	21 483 326	6 620 107	(13 245 595)	14 857 838
Servitudes	84 459 921	121 312	-	84 581 233
	105 943 247	6 741 419	(13 245 595)	99 439 071

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software and licenses	15 339 939	16 257 978	(10 114 591)	21 483 326
Servitudes	84 440 225	19 696	-	84 459 921
	99 780 164	16 277 674	(10 114 591)	105 943 247

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
10. Intangible assets (continued)		
Pledged as security		
No intangible assets are pledged as security.		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipal entity.		
11. Deferred tax		
Deferred tax liability		
Opening balance	(391 523 240)	-
Property, plant and equipment	(55 294 395)	(391 380 636)
Prepaid expenses	(8 748)	(142 604)
Total deferred tax liability	(446 826 383)	(391 523 240)
Deferred tax asset		
Opening balance	8 036 308	-
Taxable temporary differences	(16 103 430)	8 036 308
Tax losses available for set off against future taxable income	135 855 139	60 161 194
Total deferred tax asset	127 788 017	68 197 502
Deferred tax liability	(446 826 383)	(391 523 240)
Deferred tax asset	127 788 017	68 197 502
Total net deferred tax liability	(319 038 366)	(323 325 738)
Reconciliation of deferred tax asset \ (liability)		
At beginning of year	(323 325 738)	-
Depreciable assets	(55 294 415)	(391 380 636)
Finance lease	(5 098)	2 116
Operating lease	(84 732)	112 143
Provisions	(16 013 599)	7 922 049
Prepaid expenses	(8 748)	(142 604)
Assessed loss	75 693 964	60 161 194
	(319 038 366)	(323 325 738)

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

11. Deferred tax (continued)

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a deficit in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

The deferred tax asset arose as a result of the municipal entity not having been subject to income tax in the past. However in the 2014/15 financial year the municipal entity had to account for income tax which resulted in the wear and tear allowances being in excess of the available surplus. The municipal entity has the ability to generate profit in the foreseeable future against which temporary differences will be utilised.

Deferred tax assumptions

As at 30 June 2016 no guidance was received from SARS on the transition from a tax exempt entity to a taxable entity. Due to this, uncertainties in the calculation of the municipal entity's taxation exist and will continue to exist going forward until a pronouncement is made by SARS on the municipal entity's tax calculation. In the absence of a pronouncement from SARS and the fact that the municipal entity is no longer tax exempt, the municipal entity had to make certain key assumptions relating to income- and deferred tax to be able to account for tax. These assumptions are set out as follows:

Infrastructure assets

The base cost for the electrical infrastructure assets of the municipal entity was determined by using the audited infrastructure fixed asset register. The tax exemption for the municipal entity was no longer applicable as at the 1 July 2014, on this date the municipal entity embarked on an exercise to determine the base cost for each of the Infrastructure assets. The closing balance for the 2013/2014 financial year was deemed as the most accurate value to be used as the base cost and carrying values for tax purposes moving forward. Up until 1 July 2014 management had never claimed any wear & tear on infrastructure assets. The base cost was therefore the deemed cost as at 1 July 2014.

Infrastructure assets of the municipal entity are all carried on the revaluation model as per General Recognised Accounting Standards 17 - Property plant and equipment. There is no General Recognised Accounting Standards standard applicable to taxation, therefore the municipal entity referred to the international accounting standards (IAS) for further guidance, which is IAS 12: Income taxation. Through inspection of the income tax action and the practice notes it was noted that there was no clear guidance regarding the write off periods for electrical infrastructure assets. Due to this Section 12D of the income tax action was deemed as the best alternative to use to determine the write off periods for most of the electrical infrastructure assets. Section 12D was applied to the following electrical infrastructure assets: High Voltage conductors, Medium Voltage conductors, Low Voltage conductors and the Streetlights. All other categories of infrastructure assets could operate independent of transmission lines and Section 12D would not be applicable to these assets.

As per the Income Tax Act, 1962 (Act 58 of 1962) the kind of information that could be useful in determining the expected useful life of an asset/write off period include:

- Independent engineering information;
- The taxpayer's own past experience with similar assets;

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

11. Deferred tax (continued)

Based on the above and due to insufficient guidance in the Income Tax Act, 1962 (Act 58 of 1962) the option of best professional judgement in determining an accurate write off period for the Infrastructure assets was used as follows:

- For all the distribution lines and cables a 5% write off period was used
- For all other infrastructure assets a 5 year write off period was adopted as the assets have been in operation for some time and as per the engineering information they cannot fall within Section 12D of the Income Tax Act, 1962 (Act 58 of 1962) .

Section 12 of the Income Tax Act, 1962 (Act 58 of 1962) was applied therefore no apportionment of the wear and tear was done. The wear and tear of assets is the amount that the South African Receiver of Revenue considers an appropriate write off timeframe for each asset. The wear and tear was calculated as follows:

- The depreciated replacement cost was taken per asset and any addition for the year was added and this value was multiplied by 20%.
- When an asset is disposed of during the financial year wear and tear is still calculated for that asset and an inspection for a possible recoupment is done.

Non-Infrastructure assets

All assets other than infrastructure assets were written off by making use of Practice note 19.

Debt impairment

The provision for debt impairment is limited as a tax deduction to the extent that the originating revenue was taxable. Since the municipal entity was tax exempt for a period the revenue recognised and subsequently impaired during this period could not fully be included as a tax deduction. Due to this only the movement in the debt impairment for the year when the municipal entity first became taxable was used in calculating the tax.

12. Consumer deposits

Electricity	127 743 335	70 796 810
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Guarantees in lieu of vendor deposits amounted to R 11 368 891 (2015: R 15 549 583).

Fair value approximates the carrying value of the vendor deposits.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
13. Finance lease obligation		
Minimum lease payments due		
- within one year	1 020 869	731 649
- in second to fifth year inclusive	1 064 660	1 217 645
- later than five years	-	-
	<u>2 085 529</u>	<u>1 949 294</u>
less: future finance charges	(199 664)	(237 007)
Present value of minimum lease payments	<u>1 885 865</u>	<u>1 712 287</u>
Present value of minimum lease payments due		
- within one year	880 969	598 770
- in second to fifth year inclusive	1 004 896	1 113 517
- later than five years	-	-
	<u>1 885 865</u>	<u>1 712 287</u>
Non-current liabilities	1 004 896	1 113 517
Current liabilities	880 969	598 770
	<u>1 885 865</u>	<u>1 712 287</u>

It is the municipal entity's policy to lease certain photo copiers under finance leases. The average lease term is 3 years and the average effective borrowing rate was 10% (2015: 10%). Initial lease payment varied between R153 and R4 286 per month for a lease period of between 3-5 years and are subject to prime lending rates.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The fair value of finance lease liabilities approximates their carrying amounts.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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14. Long service awards

Reconciliation of long service awards - 2016

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	3 871 000	1 932 822	(96 822)	803 000	379 000	6 889 000

Reconciliation of long service awards - 2015

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	3 029 000	137 949	(169 949)	623 000	251 000	3 871 000
Non-current liabilities					6 083 000	2 899 000
Current liabilities					806 000	972 000
Present value of long service awards obligation					6 889 000	3 871 000

The long service awards liability arises from the municipal entity being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC. This agreement is effective from 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 321 (2015 - 248) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 1 161 000 (2016 - R 803 000) whereas the interest-cost for the next year is estimated to be R 727 000 (2016 - R 379 000).

As at the valuation date, the long service leave award liability of the organisation was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets were valued as part of the valuation.

The key assumptions utilised by management in determining the long service awards liability are listed below:

Discount Rate	Yield Curve	Yield Curve
Normal Salary Increase Rate	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield Curve	Yield Curve
	Based	Based
Mortality	SA 85-90	SA 85-90
Normal Retirement age	65	65
Average Retirement Age	63	63
Consumer price inflation (CPI)	Difference between nominal and real yield curve	Difference between nominal and real yield curve

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
14. Long service awards (continued)		
Total expense recognised in the statement of financial performance under the line item employee related costs:		
Current service cost	803 000	623 000
Interest cost	379 000	251 000
Actuarial (gains) / losses	1 932 822	137 949
	3 114 822	1 011 949

Present value of long service award obligation:

Present value of long service award as at 30 June 2016	(6 889 000)
Present value of long service award as at 30 June 2015	(3 871 000)
Present value of long service award as at 30 June 2014	(3 029 000)
Present value of long service award as at 30 June 2013	(2 915 000)
Present value of long service award as at 30 June 2012	(695 000)

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation/increase.

Discount rate:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

In accordance with the above, the nominal and real zero curves as at 30 June 2016 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

The Net Effective Discount Rate:

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Increase Rate:

The underlying future rate of consumer price index inflation (CPI inflation) was derived from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. The assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6.00%. The next salary increase was assumed to take place on 01 July 2017.

Interest Cost:

The Interest Cost represents the accrual of interest on the Accrued Defined Benefit Obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment.

Current Service Cost:

The Current Service Cost reflects the additional liability that is expected to accrue in respect of in service members' service over the corresponding year.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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14. Long service awards (continued)

Actuarial loss:

The main reasons for the actuarial loss can be attributed to the following factors:

1. Changes in economic variables – In this year's valuation the nominal and real zero curves as at 30 June 2016 supplied by the JSE was used to determine the discount rates and CPI assumptions at each relevant time period. As a result the interest rates, bond yields and inflation figures changed. This resulted in a decrease in liability of around R 30 000.

2. Membership data changes – Over the past financial year, there were various membership data changes. Specifically, salaries increased by more than allowed for and membership increased by 29.44%. This, along with some other smaller factors, lead to an overall increase in liability of around R 1 963 000.

Sensitivity analysis:

In order to illustrate the sensitivity of the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation

Withdrawal rate:

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Organisation. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Organisation in the form of benefits will reduce and vice versa. The effect of higher and lower withdrawal rates have been illustrated by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	7 382 000	6 889 000	6 457 000
Current Service Cost	1 274 000	1 161 000	1 064 000
Interest Cost	782 000	727 000	679 000
	9 438 000	8 777 000	8 200 000

Normal salary inflation:

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees. The effect of a 1% p.a. change in the normal salary inflation assumption was tested. The effect is as follows:

Normal salary inflation	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	6 438 000	6 889 000	7 391 000
Current Service Cost	1 076 000	1 161 000	1 256 000
Interest Cost	678 000	727 000	782 000
	8 192 000	8 777 000	9 429 000

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
15. Operating lease liabilities		
Non-current liabilities	-	96 338
Current liabilities	97 893	304 171
	<u>(97 893)</u>	<u>(400 509)</u>

The municipal entity leases a building situated in Botshabelo from Free State Development Corporation (FDC) for an indefinite period which can be terminated by way of a 3 month cancellation clause. Management has estimated to rent from FDC until the year 2016. The lease rental is escalated annually on 1 December by 10%. The straight lined amount was calculated as R30 062 per month.

The municipal entity leases a building situated in Bloemfontein from Telkom SA (SOC) Ltd for an initial rental period of 3 years, commencing on 1 November 2013 and terminating on 31 October 2016 with no option to purchase. The lease rental is escalated annually on 1 November by the prime lending rate as quoted by Standard Bank at the date of escalation plus 1%. The straight lined amount was calculated as R233 273 per month.

16. Other financial liabilities

At amortised cost

Capital Advances Mangaung Metropolitan Municipality	95 262 840	102 562 883
The capital funding provided to the municipal entity is repayable in monthly installments based on the estimated useful life of the capital asset as initially determined by Mangaung Metropolitan Municipality. The capital funding provided to the municipal entity will bear interest annually at the interest rate equal to the prime lending rate on the first day of each financial year and shall thereafter be fixed for the entire financial year. The prime interest rate at 1 July 2015 was 9.25% (2014/15: 9%)		
Intercompany loan	578 327 746	475 420 950
The shareholders loan payable as at year end, 30 June 2015, was set off against the Inter company loan. The remaining balance is to be settled over a 3 year period.		
	<u>673 590 586</u>	<u>577 983 833</u>
Total other financial liabilities	<u>673 590 586</u>	<u>577 983 833</u>

There were no defaults on the financial liability during the reporting period.

Non-current liabilities

At amortised cost	246 511 198	412 210 140
Current liabilities		
At amortised cost	427 079 388	165 773 693

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
17. Payables from exchange transactions		
Accrued leave pay and bonus	10 435 932	9 329 289
Deferred revenue	10 882 310	9 195 258
Electricity connections	6 887 585	6 236 798
Mantsopa Local Municipality	8 333 222	3 704 549
Operating expense accrual	10 361 972	9 799 595
Other payables	19 044	21 112
Retention creditors	4 774 596	2 883 716
Salary control	1 845 965	2 705 134
Trade payables	235 366 554	187 415 037
Unallocated consumer and vendor payments received in advance	85 401 686	79 086 404
Unallocated deposits received	6 116 487	6 093 311
	380 425 353	316 470 203
18. VAT liability		
VAT liability	14 023 892	20 855 461
VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors. All VAT returns have been submitted by the due date throughout the financial year.		
19. Loans to/(from) shareholders		
Mangaung Metropolitan Municipality	(1 071 479 158)	(1 071 479 158)
The loans are unsecured and bears interest at the lower of 15% of the revenue (sale of electricity and pre-paid electricity) of the municipal entity for the previous financial year or the interest rate on the loan for the financial year ended 30 June 2011 adjusted annually for the CPI applicable to the Public Finance Sector.		
Installments of R267 867 789 are payable every five (5) years with the initial payment on 30 June 2015.		
There were no defaults on the shareholders loan during the reporting period.		
20. Share capital / contributed capital		
Authorised		
1000 Ordinary shares of par value of R1	1 000	1 000
Issued		
100 Ordinary shares	100	100
21. Revaluation reserve		
Balance at the beginning of period	1 091 235 212	45 771 881
Movements in the reserve for the year	(17 794 678)	1 045 463 331
	1 073 440 534	1 091 235 212

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
22. Other NDR		
In accordance with the terms of the NERSA (National Energy Regulator of South Africa) agreement it was agreed that R60 000 000 is to be held as a non-distributable reserve.		
Closing balance	60 000 000	60 000 000
23. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Movement during the year		
Balance at the beginning of the year	-	7 017 544
Income recognition during the year	-	(7 017 544)
	-	-
24. Service charges		
Free services recoverable	8 725 662	5 533 456
Sale of electricity	1 375 998 932	1 340 205 159
Sale of pre-paid electricity	640 960 100	542 646 943
	2 025 684 694	1 888 385 558
25. Other income		
Credit control fees	2 352 052	1 166 771
Insurance claim recovery	404 744	35 730
Reconnection tests and removals	1 510 619	840 401
Sale of clearance certificates	509 273	883 001
Sale of tender documents	237 763	175 544
Sundry services recovered	9 000	122 126
Training income	1 702 673	1 979 742
Other income	171 190	70 371
Street lighting	24 803	49 626 112
	6 922 117	54 899 798

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
26. Interest Income		
Interest revenue		
Interest on ABSA Current account	575 951	788 094
Interest on loans and other receivables from exchange transactions	270 252	75 848 295
Interest on consumer receivables from exchange transactions	7 439 155	10 187 334
Interest on bank investments	31 108 031	33 899 145
	39 393 389	120 722 868

Short-term deposits consists of the following short term investments with ABSA, Standard Bank & Nedbank. The details and interest earned on these investments are set out below:

- ABSA 32 Day call account with varying interest rates between 5.61% and 7.20% depending on the amount invested and the change in the prime interest rate. All funds were withdrawn from this investment at 30 June 2016 and no re-investment was made.
- ABSA 1 Day call account with varying interest rates between 0.00% and 6.70% depending on the amount invested and the change in the prime interest rate.
- ABSA 365 day fixed investment with an interest rate of 8.01%.
- FNB 365 day fixed investment with an interest rate of 8.01%.
- Nedbank 365 day fixed investment with an interest rate of 7.92%.

27. Government grants and subsidies

Capital grants

National electrification programme grant	26 315 789	26 491 228
	26 315 789	26 491 228

Electricity demand side management grant

Balance unspent at beginning of year	-	7 017 544
Transferred to parent municipality payable	-	(7 017 544)
	-	-

Conditions still to be met - remain liabilities (see note 23).

The purpose of the grant is to implement the Electricity Demand Side Management programme by providing capital subsidies to licensed distributors to address the programme in residential dwellings, communities and municipal buildings in order to mitigate the risk of load shedding and supply interruptions.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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27. Government grants and subsidies (continued)

National Electrification Programme

Current-year receipts	26 315 789	26 491 228
Conditions met - transferred to revenue	(26 315 789)	(26 491 228)
	-	-

The purpose of the grant is to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

The conditions were met and the grant was transferred to revenue.

28. Public contributions and donations

Public contributions	17 292 910	16 323 212
Donations received	28 197 649	6 184 863
	<u>45 490 559</u>	<u>22 508 075</u>

29. Revenue

Agency services	4 788 455	4 750 908
Government grants & subsidies	26 315 789	26 491 228
Interest received	39 393 389	120 722 868
Other income	6 922 117	54 899 798
Public contributions and donations	45 490 559	22 508 075
Service charges	2 025 684 694	1 888 385 558
	<u>2 148 595 003</u>	<u>2 117 758 435</u>

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

Agency services	4 788 455	4 750 908
Interest income	39 393 389	120 722 868
Other income	6 922 117	54 899 798
Service charges	2 025 684 694	1 888 385 558
	<u>2 076 788 655</u>	<u>2 068 759 132</u>

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

Transfer revenue

Government grants & subsidies	26 315 789	26 491 228
Public contributions and donations	45 490 559	22 508 075
	<u>71 806 348</u>	<u>48 999 303</u>

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
30. Employee related costs		
Basic salary and wages	95 888 984	67 543 370
Bargaining council	34 039	21 615
Housing benefits and allowances	343 927	156 725
Leave pay provision charge	176 731	988 893
Long-service awards	3 114 822	1 011 949
Medical aid - company contributions	6 304 208	3 884 181
Overtime payments	10 036 782	8 370 731
Pension and provident fund contributions	11 228 773	6 700 898
Travel, motor car, accommodation, subsistence and other allowances	10 284 233	7 009 027
UIF contributions	670 358	439 918
	138 082 857	96 127 307

Remuneration of Chief Executive Officer - Mr. AN Mgoqi

Annual Remuneration	1 821 427	1 232 110
Travel, motor car, accommodation, subsistence and other allowances	29 690	16 469
Contributions to UIF, Medical and Pension Funds	50 857	24 471
Acting Allowance	-	34 030
	1 901 974	1 307 080

Remuneration of Chief Financial Officer - Mr. TJ Ramulondi

Annual Remuneration	1 047 848	977 991
Travel, motor car, accommodation, subsistence and other allowances	229 311	230 144
Contributions to UIF, Medical and Pension Funds	202 264	208 162
	1 479 423	1 416 297

Remuneration of Chief Operating Officer - Mr. LG Kritzinger

Annual Remuneration	1 562 003	1 562 009
Travel, motor car, accommodation, subsistence and other allowances	127 196	127 350
Contributions to UIF, Medical and Pension Funds	7 437	18 514
	1 696 636	1 707 873

Remuneration of Company Secretary

On 31 March 201 the position became vacant when the Company Secretary resigned. Phatshoane Henney Inc was appointed to oversee the activities of the Company Secretary until the vacancy is filled. At 30 June 2016 the post was still vacant.

Remuneration of Executive Manager: Retail - Mr. MAE Pobe

Annual Remuneration	1 241 566	1 174 917
Travel, motor car, accommodation, subsistence and other allowances	139 291	162 324
Contributions to UIF, Medical and Pension Funds	6 212	14 970
	1 387 069	1 352 211

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
30. Employee related costs (continued)		
Remuneration of Executive Manager: Wires		
Annual Remuneration	454 454	981 908
Travel, motor car, accommodation, subsistence and other allowances	132 398	16 563
Contributions to UIF, Medical and Pension Funds	46 778	44 057
Acting allowance	74 031	55 287
	707 661	1 097 815

During the 2015 financial year the Executive Manager: Wires, mr. AN Mgoqi, was appointed as acting Chief Executive Officer and an Acting Executive Manager: Wires, mr. MS Sekoboto, was appointed from July 2014 to August 2014.

On 1 April 2015 mr. AN Mgoqi was permanently appointed as the Chief Executive Officer and the Executive Manager: Wires position became vacant.

Mr. MS Sekoboto was appointed as the acting Executive Manager: Wires for the period May 2015 to July 2015, after which mr. XG Faku was appointed as acting Executive Manager: Wires for the period January 2016 to March 2016, followed by the appointment of mr. P Mohapi as the acting Executive Manager: Wires for the period April 2016 to June 2016.

Remuneration of Executive Manager: Human Resources - Me. S Molefe

Annual Remuneration	1 179 110	272 403
Travel, motor car, accommodation, subsistence and other allowances	16 611	5 089
Contributions to UIF, Medical and Pension Funds	36 654	18 535
Acting Allowance	-	66 014
	1 232 375	362 041

Remuneration of directors

Annual Remuneration	1 268 650	1 331 395
Contributions to UIF, Medical and Pension Funds	10 386	23 330
	1 279 036	1 354 725

Refer to note 48 for details of the remuneration per person.

31. Management fees

Management fees - Mangaung Metropolitan Municipality	96 009 980	108 370 538
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Management fees relate to Mangaung Metropolitan Municipality for employees seconded to the municipal entity.

32. Depreciation and amortisation

Property, plant and equipment	126 775 697	72 293 895
Intangible assets	13 245 595	10 114 591
	140 021 292	82 408 486

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
33. Impairment loss / (reversal of impairments)		
Impairments		
Property, plant and equipment	3 376 525	359 909
The recoverable amount of the asset was assessed at the end of the 2014/15 financial year and it was found to be less than the carrying amount of the asset and an impairment loss was raised.		
Inventories	1 749 938	139 813
An assessment of the net realisable value against cost was performed and inventory was written down.		
	<u>5 126 463</u>	<u>499 722</u>
34. Finance costs		
Capital advances Mangaung Metropolitan Municipality	9 487 067	9 888 796
Finance leases	187 655	33 365
Interest on intercompany loan	46 581 484	-
Shareholders loan	136 414 260	270 223 418
Trade and other payables	7 774	4 368
	<u>192 678 240</u>	<u>280 149 947</u>
35. (Reversal of) / Contributions to debt impairment provision		
(Reversal of) / Contributions to debt impairment provision	<u>(70 253 514)</u>	<u>6 908 780</u>
36. Bulk purchases		
Electricity	<u>1 339 120 718</u>	<u>1 183 803 965</u>

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
37. General expenses		
Advertising & marketing	5 280 834	5 806 139
Auditors remuneration	6 365 714	6 955 080
Bank charges	1 682 100	1 399 532
Bursaries	161 288	156 693
Cleaning	279 293	220 844
Commission paid	83 217 704	68 656 820
Computer expenses	-	240 545
Conferences and delegations	593 676	247 701
Consulting and professional fees	34 150 539	19 168 302
Consumables	-	7 419
Contractors fees	9 924 764	7 887 167
Corporate social investment	3 496 678	3 829 580
Credit control fees	2 291 368	7 602 107
Employment agencies	-	20 268
Entertainment	577 280	294 758
Fines and penalties	3 026	-
Fuel and oil	5 787 122	5 754 040
ICT Strategy system integration	-	3 462 158
Insurance	25 814 123	22 511 338
Internal audit fee	3 862 925	4 845 150
Inventory management system	3 562 628	1 324 293
Lease rentals on operating lease	3 224 276	3 157 678
Legal costs	3 776 558	4 296 369
License fees	1 201 331	1 568 138
Meter reading	5 987 755	12 589 242
Other expenses	520 339	1 273 450
Postage and courier	943	1 847
Printing and stationery	1 436 516	3 145 603
Protective clothing	672 405	635 488
Security services	1 499 397	686 782
Skills development levy	318 897	801 772
Software expenses not capitalised	1 035 166	1 711
Staff welfare	699 583	776 484
Stores and materials	196 741	334 543
Subscriptions and membership fees	64 633	25 884
Telephone and fax	3 288 876	2 879 943
Training	6 850 874	16 564 476
Travelling	1 771 542	1 259 659
Rented office buildings utilities - Electricity	729 258	1 262 799
Rented office buildings utilities - Water	378 043	132 891
	220 704 195	211 784 693

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
38. Taxation		
Major components of the tax income		
Current		
Local income tax - current period	-	-
Local income tax - recognised in current tax for prior periods	88 673 501	-
	88 673 501	-
Deferred		
Originating and reversing temporary differences	71 406 591	61 254 387
Prior year - (Over) / Under provision	(88 673 501)	(84 336 558)
Assessed loss used	60 161 195	-
Assessed loss raised	(135 855 158)	(60 161 194)
	(92 960 873)	(83 243 365)
	(4 287 372)	(83 243 365)
Reconciliation of the tax expense		
Reconciliation between accounting surplus and tax expense.		
Accounting surplus	2 713 117	13 628 381
Tax at the applicable tax rate of 28% (2015: 28%)	759 673	3 815 947
Tax effect of adjustments on taxable income		
Non-taxable income	(7 368 421)	(7 417 565)
Prior year under/(over) provision deferred tax	-	(84 336 558)
Non-deductible expenses	2 321 376	4 694 811
	(4 287 372)	(83 243 365)

The municipal entity was granted exemption from income tax in terms of Section 10(1)(t)(v)(iii) of the Income Tax Act on the 27 August 2012 which was effective until the year of assessment commencing on or before 1 January 2014.

Management has engaged the South African Revenue Services (SARS) and National Treasury on the transition to a fully taxable entity. Given the complex nature of Municipality infrastructure assets that are not subject to tax, SARS has undertaken to assist the municipal entity in its transition to a fully taxable entity with specific reference to the tax treatment of assets that are not provided for in SARS's practice and interpretation notes.

As a result of this engagement the municipal entity was not in a position to account for income tax as at 30 June 2015. As at the end of 30 June 2016 the municipal entity was able to account for income tax as at 30 June 2015 and 30 June 2016 resulting in the restatement of the comparative figures.

Income tax was accounted for in terms of the principals set out in International Accounting Standard 12.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
39. Net cash flows from operating activities		
Surplus	7 000 489	96 871 746
Adjustments for:		
Depreciation and amortisation	140 021 292	82 408 486
(Gain)/Loss on sale of assets and liabilities	1 014 363	8 641 235
Finance costs - Finance leases	187 655	33 365
Impairment deficit	5 126 463	499 722
Debt impairment	(70 253 514)	6 908 780
Movements in operating lease liability	(302 616)	16 707
Movements in long service awards	3 018 000	842 000
Annual charge for deferred tax	(4 287 367)	(83 243 365)
Interest on intercompany loan	-	(75 848 295)
Changes in working capital:		
Inventories	(22 351 668)	(1 003 709)
Other receivables from exchange transactions	(2 738 037)	75 509 845
Consumer receivables from exchange transactions	(79 091 939)	77 369 730
Payables from exchange transactions	63 955 140	17 991 899
VAT receivable / payable	(6 831 569)	17 089 355
Unspent conditional grants and receipts	-	(7 017 544)
Consumer deposits	56 946 525	21 308 347
	91 413 217	238 378 304
40. Auditors' remuneration		
Audit fees	6 365 714	6 955 080
41. Capital commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment - Infrastructure	131 472 698	175 848 306
Approved but not yet contracted for		
• Property, plant and equipment - Infrastructure	85 540 557	58 905 012
Total capital commitments		
Already contracted for but not provided for	131 472 698	175 848 306
Not yet contracted for and authorised by directors	85 540 557	58 905 012
	217 013 255	234 753 318
This expenditure will be financed from		
• Government grant	-	76 817 077
• Own resources	217 013 255	157 936 241
	217 013 255	234 753 318

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
41. Capital commitments (continued)		
Authorised operational expenditure		
Approved and contracted for		
• Contracted services	34 513 229	9 953 068
Approved but not yet contracted for		
• Contracted services	4 560 000	20 948 302
Total operational commitments		
Already contracted for but not provided for	34 513 229	9 953 068
Not yet contracted for and authorised by directors	4 560 000	20 948 302
	39 073 229	30 901 370
Total commitments		
Total commitments		
Authorised capital expenditure	217 013 255	234 753 318
Authorised operational expenditure	39 073 229	30 901 370
	256 086 484	265 654 688

This committed expenditure relates to Infrastructure and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc. All commitments include VAT.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1 030 983	3 461 849
- in second to fifth year inclusive	-	1 028 651
- later than five years	-	-
	1 030 983	4 490 500

The municipal entity leases a building situated in Botshabelo from Free State Development Corporation (FDC) for an indefinite period which can be terminated by way of a 3 month cancellation clause. Management has estimated to rent from FDC until the year 2016. The lease rental is escalated annually on 1 December by 10%. The straight lined amount was calculated as R30 062 per month.

The municipal entity leases a building situated in Bloemfontein from Telkom SA (SOC) Ltd for an initial rental period of 3 years, commencing on 1 November 2013 and terminating on 31 October 2016 with no option to purchase. The lease rental is escalated annually on 1 November by the prime lending rate as quoted by Standard Bank at the date of escalation plus 1%. The straight lined amount was calculated as R233 273 per month.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
42. Contingencies		
The municipal entity is being sued for the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.		
Contingent liabilities		
Litigations of Centlec (SOC) Ltd vs M Coetzee - Litigation against Centlec (SOC) Ltd to prohibit them from disconnecting electricity supply.	-	200 000
Litigations of Centlec (SOC) Ltd vs MNK Accountants - Litigation against Centlec (SOC) Ltd relating to service agreement termination and non-payment by Centlec (SOC) Ltd due to non-performance.	50 000 000	50 000 000
Litigations of Centlec (SOC) Ltd vs Ramakarane - Litigation against Centlec (SOC) Ltd for breach of employment contract.	3 000 000	3 000 000
Litigations of Centlec (SOC) Ltd vs Potgieter - Litigation against Centlec (SOC) Ltd relating to labour disputes.	250 000	1 000 000
Litigations of Centlec (SOC) Ltd vs Easy Pay - Litigation against Centlec (SOC) Ltd relating to extension of Easy Pay contract.	400 000	400 000
Litigations of Centlec (SOC) Ltd vs Vuyani Security Services - Litigation against Centlec (SOC) Ltd contesting the service provider contract termination by Centlec (SOC) Ltd due to alleged non-service delivery by Vuyani Security Services.	750 000	-
Litigations of Centlec (SOC) Ltd vs Tlelai N.O. & Power Trust 66 (Lengau Hotel) - Litigation against Centlec (SOC) Ltd to prohibit them from disconnecting electricity supply.	200 000	62 000
Litigations of Centlec (SOC) Ltd vs Chabas CL & SD - Litigation against Centlec (SOC) Ltd relating to Discovery.	-	2 747
Litigations of Centlec (SOC) Ltd vs Polixeni Aresti & 1 other - Litigation against Centlec (SOC) Ltd relating to taxation.	74 981	74 981
Deposits received by Centlec (SOC) Ltd on behalf of Mangaung Metropolitan Municipality being disputed and in progress of being investigated.	-	188 114
Litigations of Centlec vs Van den Berg and 5 others - Litigation against Centlec (SOC) Ltd relating to a claim for damages suffered as a result of a veldt fire allegedly caused by Centlec (SOC) Ltd.	7 000 000	-
Litigations of Centlec vs IMATU obo Mkhwane - Litigation against Centlec (SOC) Ltd relating to labour disputes.	719 433	-
Litigations of Centlec vs SAMWU obo Molehe and 4 others - Litigation against Centlec (SOC) Ltd relating to labour disputes.	45 000	-
Litigations of Centlec vs SAMWU obo Kgatlako - Litigation against Centlec (SOC) Ltd relating to labour disputes.	95 247	-
Litigations of Centlec vs Litaba Maphisa - Litigation against Centlec (SOC) Ltd relating to alleged wrongful electricity disconnection.	2 280	-
Litigations of Centlec vs Mr. Patrick J Lamprecht - Litigation against Centlec (SOC) Ltd relating to alleged wrongful electricity disconnection.	13 520	-
Litigations of Centlec vs Bolt & Engineering - Litigation against Centlec (SOC) Ltd relating to non payment for services rendered.	7 500	-
Litigations of Centlec vs F Brinton - Litigation against Centlec (SOC) Ltd.	9 021	-
	62 566 982	54 927 842

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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42. Contingencies (continued)

Contingent assets

The municipal entity is taking legal actions against a supplier and the result of the pending claim is uncertain. The claim is being contested based on legal advice. The certainty and the timing of the inflow of these assets are uncertain. The details are as follows:

Litigations of Centlec vs Landis & Gyr - Summons issued against Landis & GYR for delivering defective meters to Centlec (SOC) Ltd.	2 000 000	400 000
Streetlight consumption charged by Centlec (SOC) Ltd to Mangaung Metropolitan Municipality not recognised owing to a differing opinion on the council resolution relating to the streetlight handover.	53 917 875	-
	<u>55 917 875</u>	<u>400 000</u>

43. Change in estimate

Intangible assets

During the year, the municipal entity changed its accounting estimates with respect to intangible assets. In order to conform with the benchmark treatment of GRAP17. The municipal entity re-assessed the remaining useful lives of all intangible assets, which led to a change in the amortisation for the current year.

The aggregate effect of the changes in accounting estimate on the financial statements for the year ended 30 June 2016 is as follows:

Amortisation expense before remaining useful lives review	13 838 929
Future reduction in amortisation due to review	(593 334)
Amortisation expense after remaining useful lives review	<u>13 245 595</u>

44. Prior period errors

The municipal entity corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors:

44.1. Prior period error - Public Contributions & donations:

During the period under review it was noted that amounts received during the 2013/2014 and 2014/2015 financial years for public connections were never recognised as revenue after the connections were made due to the fact that the completion dates of the connections was not available at that time. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in Payables from exchange transactions	25 726 118
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Statement of financial performance

Increase in Public Connection Income	(7 419 936)
Increase in opening accumulated surplus or deficit	(18 306 182)

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
44. Prior period errors (continued)		
44.2. Prior period error - Auction income accrual:		
During the period under review it was noted that the accrual raised for the auction income receivable at year end 2014/2015 was incorrect as it did not include the commission. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in other receivables from exchange transactions		109 650
Increase in VAT liability		(13 465)
Statement of financial performance		
Decrease in loss on disposal of assets and liabilities		(96 185)
44.3. Prior period error - Infrastructure assets:		
During the period under review it was noted that pole mounted transformers identified during the 2015 financial year end count was not capitalised during the 2014/2015 financial year as these items were originally thought to be outside the Mangaung service area. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in property plant and equipment		15 675 442
Increase in accumulated depreciation		(3 918 860)
Statement of financial performance		
Increase in opening accumulated surplus or deficit		(11 756 582)
44.4. Prior period error - Income Taxation:		
During the period under review the municipal entity was deemed to be taxable for income taxation starting from the 2014/15 financial year. A taxation calculation for the 2014/2015 financial year was performed resulting in deferred tax assets and -liabilities which had to be recorded for the 2014/2015 financial year. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in deferred tax asset		68 197 502
Increase in deferred tax liability		(391 523 240)
Decrease in revaluation reserve	-	406 569 103
Statement of financial performance		
Decrease in taxation		(83 243 365)

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
44. Prior period errors (continued)		
44.5. Prior period error - VAT:		
During the period under review it was noted that the accrual raised for creditors payable at year end 2014/2015 resulted in accounting for VAT on a non-vatable transaction. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in VAT liability		(2 818)
Statement of financial performance		
Increase in general expense		2 818
44.6. Prior period error - Insurance claim:		
During the period under review it was noted that amounts received for insurance claims during the 2014/2015 financial year was incorrectly allocated to the insurance debtor. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in receivables from exchange transactions		35 730
Statement of financial performance		
Increase in other income		(35 730)
44.7. Prior period error - Management fees:		
During the period under review it was noted that the management fees expense incurred during the 2012/2013 to 2014/2015 financial years was overstated as it incorrectly included amounts charged for apprentices. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in other current financial liabilities		904 792
Decrease in other non-current financial liabilities		1 809 584
Increase in VAT liability		(333 344)
Statement of financial performance		
Decrease in management fees		(1 100 246)
Increase in opening accumulated surplus or deficit		(1 280 785)
44.8. Prior period error - Retention creditor:		
During the period under review it was noted that amounts payable relating to the retention creditor for the 2014/2015 financial year was not accounted for. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in property, plant and equipment		1 411 293
Increase in payables from exchange transactions		(1 608 874)
Decrease in VAT liability		197 581

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
44. Prior period errors (continued)		
44.9. Prior period error - Work in progress:		
During the period under review it was noted that amounts included in work in progress during the 2014/2015 financial year should have been accounted for as a repairs and maintenance expense. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in property, plant and equipment		(8 603 989)
Statement of financial performance		
Increase in repairs and maintenance		8 603 989
43.10. Prior period error - Intangible asset:		
During the period under review it was noted that amounts capitalised to intangible assets during the 2014/2015 financial year should have been accounted for as an expense. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in intangible assets		(1 324 293)
Statement of financial performance		
Increase in general expenses		1 324 293
44.11. Prior period error - Payable from exchange transaction:		
During the period under review it was noted that amounts relating to electrification project material for Mantsopa Local Municipality was incorrectly accounted for as a Centlec (SOC) Ltd expense instead of a Mantsopa Local Municipality expense during the 2014/2015 financial year. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in payable from exchange transactions		197 212
Statement of financial performance		
Decrease in repairs & maintenance expense		(197 212)
44.12. Prior period error - Reclassifying of investments:		
During the period under review it was noted that in the prior year an investment was incorrectly classified as part of cash and cash equivalents instead of investments. A reclassification correction was made and the comparative statements for 2014/2015 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in investments		49 252 787
Decrease in cash and cash equivalents		(49 252 788)

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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44. Prior period errors (continued)

44.13. Prior period error - Reclassifying of general expense:

During the period under review it was noted that in the prior year an expense relating to contractors fees was incorrectly classified as an expense for protective clothing. A reclassification was done for the prior period and the comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial performance

Decrease in general expense - Protective clothing	(6 200)
Increase in general expense - Contractors fees	6 200

44.14. Prior period error - Reclassifying of vendors:

During the period under review it was noted that in the prior year vendors with credit balances was incorrectly disclosed as an other receivable from exchange transactions instead of as a payment received in advance. A reclassification was done for the prior period and the comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Increase in other receivables from exchange transactions	2 239 185
Increase in payables from exchange transactions	(2 239 185)

44.15. Prior period error - Year end creditor accrual:

During the period under review it was noted that the creditors accrued for during the 2014/2015 financial year incorrectly included amounts that should not have been accrued for. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in payables from exchange transactions	353 049
Increase in VAT liability	(43 357)

Statement of financial performance

Decrease in repairs and maintenance	(37 894)
Decrease in general expense	(271 798)

44.16. Prior period error - Reclassifying of depreciation and amortisation:

During the period under review it was noted that in the prior year an amount relating to amortisation was incorrectly disclosed as part of depreciation. A reclassification was done for the prior period and the comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial performance

Decrease in depreciation	(1 387 755)
Increase in amortisation	1 387 755

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

44. Prior period errors (continued)

43.17. Prior period error - Service charges:

During the period under review it was noted that service charges relating to the 2014/15 financial year was incorrectly accounted for as part of the 2015/16 financial year service charges. The comparative statements for the 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Increase in consumer receivables from exchange transactions	96 003
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Statement of financial performance

Increase in service charges	(96 003)
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43.18. Prior period error - Reclassifying of leave pay provision charge:

During the period under review it was noted that in the prior year an expense relating to leave pay provision charge which forms part of employee related costs was incorrectly classified as a general expense. A reclassification was done for the prior period and the comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial performance

Increase in employee related cost	988 893
Decrease in general expense	(988 893)

45. Events after the reporting date

The directors are not aware of any material matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosures in the financial statements.

46. 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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

47. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence; and
- entities that control or exert significant influence over the municipality

Controlling entity

Mangaung Metropolitan Municipality is the sole shareholder of the municipal entity. The municipal entity was formed to take over all activities in respect of the supply of electricity.

Executive management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly, including any director (whether executive or otherwise) of the municipal entity. The municipal entity's key management personnel includes the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Company Secretary and Executive Managers.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the group.

Business transactions took place between the municipal entity and Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution. Prof L de Jager, a director of the municipal entity, has business interests in Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution due to being a close family member of one of the directors at Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution. The risk is mitigated by the fact that she did not form part of the municipal entity's forum that approved the service level agreement contract for Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution. Prof L de Jager also submitted her resignation as member of the board during the 2015 financial year and is no longer a member of the board of directors. The nature of the transactions is in the form of the municipal entity having a service level agreement with Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution to provide meter reading and meter auditing services.

Business transactions took place between the municipal entity and Sentech SOC Ltd. Mr. J.A. Mongake, a director of the municipal entity, is also a director of Sentech SOC Ltd. The nature of the transactions is in the form of the municipal entity having a service level agreement with Sentech SOC Ltd to provide IT related services.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
47. Related parties (continued)		
Related party balances		
Loan accounts - Owing (to) by related parties		
Mangaung Metropolitan Municipality - Advances	(95 262 840)	(102 562 882)
Mangaung Metropolitan Municipality - Shareholders Loan	(1 071 479 158)	(1 071 479 158)
Mangaung Metropolitan Municipality - Intercompany loan balance	(578 327 746)	(475 420 950)
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Mangaung Metropolitan Municipality	(30 000 000)	299 747 209
Municipal accounts	58 226 919	61 339 478
Issued share capital		
Mangaung Metropolitan Municipality	100	100
Percentage of shares owned by Mangaung Metropolitan Municipality	100%	100%
Related party transactions		
Interest paid to (received from) related parties		
Mangaung Metropolitan Municipality - Advances	9 487 067	9 888 796
Mangaung Metropolitan Municipality - Shareholder loan	136 414 260	270 223 418
Mangaung Metropolitan Municipality - Intercompany loan	46 581 484	(75 534 349)
Mangaung Metropolitan Municipality - Interest on long outstanding consumer accounts	(126 541)	-
Purchases from (sales to) related parties		
Mangaung Metropolitan Municipality - Employee related costs paid	96 009 980	108 370 538
Mangaung Metropolitan Municipality - Telephone expenses	770 686	952 069
Mangaung Metropolitan Municipality - Amounts received on behalf of Mangaung Metropolitan Municipality	185 322	-
Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training	(52 535 057)	(45 374 103)
Mangaung Metropolitan Municipality - Electricity charges - Streetlight consumption	-	(41 373 160)
Mangaung Metropolitan Municipality - Reimbursable Expenses - Streetlight repairs and maintenance	-	(49 589 420)
Mangaung Metropolitan Municipality - Reimbursable Expenses - DOE grant	(26 315 789)	-
Mangaung Metropolitan Municipality - Reimbursable Expenses - Free basic services	(8 746 448)	-
Transfer to (received from) related parties		
Transfer of assets from Mangaung Metropolitan Municipality	(22 037 994)	-
Operating expense transactions with related parties		
Jager Technologies CC / Exilasolve Pty Ltd trading as Aqua-Elec Utility Solution - Meter reading & -audit services	-	26 970 434
Sentech SOC Ltd	4 214 637	2 315 668

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
47. Related parties (continued)		
Compensation to directors and other key management		
Annual remuneration	7 306 408	6 201 338
Travel, motor car, accommodation, subsistence and other allowances	674 497	557 938
Contributions to UIF, Medical and Pension Funds	360 585	328 709
Acting allowance	74 031	155 331
Directors fee	1 268 650	1 331 395
	9 684 171	8 574 711

Refer to note 30 and note 48 for details of the remuneration per person.

48. Directors' emoluments

Non-executive

2016

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi	136 134	860	227	137 221
Mr. KM Moroka	136 134	860	227	137 221
Mrs. ZC Uwah	136 134	860	227	137 221
Mr. ML Mbali (Chairperson)	343 710	1 564	573	345 847
Ms. FP Zitha (Deputy Chairperson)	229 144	1 345	382	230 871
Mr. TJ Mongake	75 630	860	227	76 717
Mr. SG Xulu	136 134	860	227	137 221
Mr. SM Zimu	75 630	860	227	76 717
	1 268 650	8 069	2 317	1 279 036

2015

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi	143 376	1 279	1 434	146 089
Mr. KM Moroka	92 820	774	928	94 522
Mrs. ZC Uwah	57 903	518	579	59 000
Mr. ML Mbali (Chairperson)	361 992	1 785	3 620	367 397
Ms. FP Zitha (Deputy Chairperson)	241 332	1 785	2 413	245 530
Mr. TJ Mongake	143 376	1 279	1 434	146 089
Mr. SG Xulu	143 376	1 279	1 434	146 089
Mr. SM Zimu	143 376	1 279	1 434	146 089
Prof. L de Jager	3 844	38	38	3 920
	1 331 395	10 016	13 314	1 354 725

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

49. Risk management

Financial risk management

This note presents information about the municipal entity's exposure to each of the financial risks below and the municipal entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the Annual Financial Statements.

The Board of directors has overall responsibility for the establishment and oversight of the municipal entity's risk management framework. The municipal entity's audit committee oversees the monitoring of compliance with the municipal entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipal entity. The audit committee is assisted in its oversight role by the municipal entity's internal audit function.

The municipal entity's exposure to risk is similar to that of the previous year. The municipal entity still faces the same risks as in the previous financial year.

The municipal entity monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:

- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

The municipal entity seeks to minimise the effects of these risks in accordance with the municipal entity's policies approved by the Board. The policies provide written principles on interest rate risk, credit risk, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipal entity does not enter into or trade in financial instruments for speculative purposes.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

49. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipal entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The municipal entity's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipal entity manages liquidity risk through ongoing review of commitments.

The municipal entity has started replacing rotational meters with prepaid meters to improve the cash funds available.

The municipal entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipal entity has not defaulted on payables and lease commitment payments and no re-negotiation of terms were made on any of these instruments.

All of the municipal entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipal entity.

The table below analyses the municipal entity's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2016	Less than 1 year	Between 1 and 2 years
Consumer deposits	127 743 335	-
Finance lease obligation	880 969	1 004 896
Other financial liabilities	427 079 388	246 511 198
Payables from exchange transactions	380 425 353	-
	936 129 045	247 516 094
2015	Less than 1 year	Between 1 and 2 years
Consumer deposits	70 796 810	-
Finance lease obligation	598 770	1 113 517
Other financial liabilities	165 773 693	412 210 140
Payables from exchange transactions	316 470 203	-
	553 639 476	413 323 657

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

49. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The municipal entity utilizes a system where when debtors do not settle their account within 60 days a warning letter is issued after which the electricity supply will be cut until the account is settled. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Maximum exposure to credit risk: There has been no significant change during the financial year, or since the end of the financial year, to the municipal entity's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk without taking into account the value of any collateral obtained.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalents	253 711 599	88 077 374
Investments	107 818 543	362 715 433
Consumer receivables from exchange transactions	428 024 727	278 679 274
Other financial assets	2 750 061	4 328 868
Other receivables from exchange transactions	65 941 588	63 203 551

These balances represent the maximum exposure to credit risk.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

49. Risk management (continued)

Market risk

Market rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipal entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year to the municipal entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The municipal entity does not enter into significant foreign currency transactions and has had very limited exposure to foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipal entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipal entity's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:

- Call and notice deposits
- Current bank accounts
- Intercompany loans
- Shareholder loans
- Capital advances
- Interest charged on consumer receivables from exchange transactions overdue

The municipal entity's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

Interest charged on the inter company loans are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these loans.

Fair values

The municipal entity's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

49. Risk management (continued)

Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

Receivables from exchange transactions

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipal entity's financial instruments are affected by the whole sale price of electricity from ESKOM.

50. Fruitless and wasteful expenditure

Opening balance	4 864	-
Identified in current year:		
- Current year	210 186	4 864
	<u>215 050</u>	<u>4 864</u>

Details of fruitless and wasteful expenditure incidents relating to 2015/16 is set out as follows:

Incident	Disciplinary steps taken/criminal proceedings	
Interest on late payment of PAYE to SARS	The interest was incurred due to technical delays on transfer of funds. No official of the municipal entity is liable and the expense has been submitted to council for consideration of write off.	181 908
Interest incurred on late payment of supplier accounts.	The invoices are submitted late by Free State Development Corporation and letters have been written to the service provider to address the concern. No official of the municipal entity is liable and the expense has been submitted to council for consideration of write off.	7 773
Interest incurred on late payment of supplier accounts.	The interest was incurred due to technical delays on transfer of funds. No official of the municipal entity is liable and the expense has been submitted to council for consideration of write off.	20 506
		<u>210 187</u>

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

50. Fruitless and wasteful expenditure (continued)

Analysis of expenditure to be considered for write off by council are as follows:

Relating to prior years

Current year

-

210 186

210 186

51. Irregular expenditure

Opening balance	42 092 510	8 544 085
Identified in current year		
- Relating to prior year	361 500	-
- Current year	24 393 440	33 548 425
	66 847 450	42 092 510

Analysis of expenditure to be considered for write off by council per age classification

Current year	24 754 940
Prior years	42 092 510
	66 847 450

Details of irregular expenditure incidents relating to 2015/16

Incident	Disciplinary steps taken/criminal proceedings	
Competitive bidding processes were not followed.	The expenditure was incurred in the current year. No disciplinary steps were taken as the expenditure was incurred as a result of the separation of the financial system of the entity from the parent municipality. The expenditure has been submitted to council for consideration of being written off.	41 103
SCM documents were stolen after a break in at the records office in the previous financial year.	The expenditure was incurred in the prior year. No disciplinary steps were taken as the procurement process was followed, however following a break in at the entity's supply chain offices the documents were stolen. The expenditure has been submitted to council for consideration of being written off.	361 500
Weakness in internal controls relating to the bidding process.	Preferential Procurement Regulations of 2011 was not fully complied with due to inadequate specifications. No disciplinary steps were taken as the inadequacies identified were as a result of technical interpretation of the Preferential Procurement Regulation of 2011. The expenditure has been submitted to council for consideration of being written off.	24 352 337
Total 2015/16 irregular expenditure.		24 754 940

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

52. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	6 365 714	6 955 080
Amount paid - current year	(6 166 744)	(6 955 080)
	198 970	-

Distribution losses

In the current year the energy losses were 13.23% (2015: 12.89%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

kWh - units	225 545 764	219 417 828
Rand value	180 249 104	154 232 114
Percentage	13.23%	12.89%

The electricity distribution loss comprises of technical and non-technical losses. For the 2015/16 financial year the distribution losses amount to 13.23% (2015:12.89%). The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc. Non-technical losses amounted to 89 191 361 kWh - units (2015: 83 205 603 kWh - units) with a Rand value of R71 278 940 (2015: R58 486 478).

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity have certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution. Technical losses amounted to 136 354 403 kWh - units (2015: 136 212 225 kWh - units) with a Rand value of R108 970 164 (2015: R95 745 636).

PAYE, UIF and SDL

Opening balance	(103 426)	65
Payable for the current year	22 603 135	16 560 732
Interest and penalties - current year	181 908	70 748
Amount paid - current year	(22 691 299)	(16 734 907)
Amount paid/refunded - previous years	103 426	(65)
	93 744	(103 427)

Pension and Medical Aid Deductions

Opening balance	23 475	(3 335)
Payable for the current year	27 208 478	16 294 976
Amount paid - current year	(27 215 328)	(16 268 166)
Amount paid - previous years	(23 475)	-
	(6 850)	23 475

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

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

Supply Chain Management Regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved and/or condoned by the Accounting Officer and noted by the Board of Directors.

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

The reasons for these deviations were documented and reported to the Accounting Officer, who considered them and subsequently approved the deviation from the normal Supply Chain Management Regulations.

Incident	Number of deviations	Rand value	Number of deviations	Rand value
Sole supplier	27	594 333	12	192 836
Urgent	99	9 254 932	10	226 444
Other	34	3 087 887	77	5 224 144
	<u>160</u>	<u>12 937 152</u>	<u>99</u>	<u>5 643 424</u>

VAT

VAT payable	<u>14 023 892</u>	<u>20 855 461</u>
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All VAT returns have been submitted by the due date throughout the year.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

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

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding during the financial year ending 30 June 2016:

Councillor	July 2015	August 2015	September 2015	October 2015
JE Petersen	14 618	13 732	12 846	12 846
J Nothnagel	20 675	20 675	20 675	20 675
LA Masoetsa	8 496	10 397	8 507	8 448
MA Siyonzana	33 496	37 648	40 908	42 388
BJ Viviers	2 600	1 696	1 526	886
ED Mashoane	84 022	84 532	85 041	85 041
NM Zophe	869	869	869	869
JC Pretorius	4 604	6 558	8 930	1 254
MA Phajane	3 475	3 501	3 526	3 526
	172 855	179 608	182 828	175 933
Councillor	November 2015	December 2015	January 2016	February 2016
JE Petersen	12 846	12 846	11 960	11 960
J Nothnagel	20 675	20 675	20 675	20 675
LA Masoetsa	11 771	15 162	15 243	15 363
MA Siyonzana	44 593	45 436	46 129	47 501
BJ Viviers	669	399	729	2 417
ED Mashoane	85 041	85 041	85 041	85 041
NM Zophe	869	869	869	869
JC Pretorius	1 370	2 713	1 127	-
MA Phajane	3 526	3 526	3 526	3 526
	181 360	186 667	185 299	187 352
Councillor	March 2016	April 2016	May 2016	June 2016
JE Petersen	11 960	11 960	11 960	11 960
J Nothnagel	20 675	20 675	20 675	20 675
LA Masoetsa	15 483	15 605	15 728	15 850
MA Siyonzana	49 041	50 492	52 264	54 909
BJ Viviers	1 946	2 803	1 614	1 783
ED Mashoane	85 041	85 041	85 041	85 041
NM Zophe	869	869	869	869
JC Pretorius	-	-	-	-
MA Phajane	3 526	3 526	3 526	3 526
	188 541	190 971	191 677	194 613

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

53. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The annual financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2015 to 30 June 2016.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 5% deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 5%.

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

1. Service charges - The variance is attributed to impact that the ESKOM call on customers to use electricity more sparing has had on the general consumption. Other factors include the tariffs adjustments during the course of the year and the electricity theft and meter tampering.
2. Other Income - The variance is mainly due to the fact that some of the other revenue line items budgeted for did not materialize as anticipated. These include insurance claims, fines and training income.
3. Interest received on investments - The variance is mainly due to interest charged on customers' accounts that are overdue. The other factor is the investment interest earned exceeding the budgeted amount.
4. Public contributions and donations - The variance is due to the fact that in the past there were backlogs of electricity connections that were completed but were never recorded as revenue. The correction has been effected in the current year resulting in a significant portion of the public connection being realized in the current year. A further contributing factor is the handover of completed infrastructure network assets to the municipal entity.
5. Employee related costs - The variance is mainly due to seconded employees budgeted for under management fees who were transferred to the municipal entity as its own employees. This resulted in a reduction of the actual management fees expense and an increase in the actual employee related cost.
6. Depreciation and amortisation - The variance is mainly due to the assets revaluation that was performed at the end of the 2014/15 financial year for which the related depreciation has been accounted for in the 2015/16 financial year.
7. Impairment loss/ Reversal of impairments - The impairment relates to inventory write downs which at the time of budget preparation can not be estimated accurately and is hence not budgeted for.
8. Debt impairment - The main reason for the variance is enhanced debt collection of long outstanding debtors, resulting in a decrease in the impairment provision.
9. Repairs and maintenance - The main reason for the variance is due to the fact that the municipal entity procured a fleet of new vehicles which significantly reduced the actual vehicle repairs and maintenance expense.
10. General Expenses - The main reason for the variance was due to the fact that the municipal entity experienced a decline in revenue that required stringent controls over expenditure which resulted in a reduction in the individual general expenditure items.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

53. Budget differences (continued)

Explanations for material variances relating to the Statement of Financial Position is set out as follows:

Current assets

The municipal entity does not budget for current portions of long term assets. The current portion as reflected on the face of the statement of financial position is budgeted for as part of the non-current assets.

1. Investments - The main reason for the variance is due to the fact that the investments matured as at year end and the accounts were closed off. The receipts are reflected in the cash and cash equivalents.
2. Other receivables from exchange transactions - The main reason for the variance is due to the fact that the vendors accounts were corrected to account for output value added tax on the sales receipts they deposited.
3. Consumer debtors - The main reason for the variance is due to the fact that at the time of preparing the budget the municipal entity had a plan in place to convert most of the rotational meters to prepaid. This was not fully implemented as at year end.
4. Cash and cash equivalents - The main reason for the variance is due to the fact that the investments matured as at year end and the accounts were closed off. The proceeds from the investment have been disclosed as cash and cash equivalents.

Non-Current Assets

1. Deferred Tax - The municipal entity is required to account for income tax as confirmed with the South African Revenue Services during October 2015. At the time of preparing the budget the information was not available to provide for deferred tax.

Current Liabilities

The municipal entity does not budget for current portions of long term liabilities. The current portion as reflected on the face of the statement of financial position is budgeted for as part of the non-current liability.

1. Consumer deposits - The main reason for the variance is due to the fact that new electrification projects which have been completed are required to open a new account and pay a consumer deposit. A large portion of these were large bulk connections which require a large consumer deposit.

Non-Current Liabilities

1. Loans from shareholders - The main reason for the variance was due to the fact that the budget was based on the amortization schedule of the 2014/15 financial year. This was revised with new rates in the 2015/16 financial year and the interest expense was not added back into the shareholders loan.
2. Other financial liabilities - The main reason for the variance is due to the fact that the interest on the shareholder's loan for the current year was set off against the intercompany loan account instead of being settled in cash.
3. Finance lease obligation - The main reason for the variance is due to the fact that the municipal entity entered into new lease agreement in the course of the current financial year.
4. Operating lease liability - The main reason for the variance was due to the fact that the operating lease was budgeted for as an operating expense and no budget was done for the straight lining effect of the operating lease on the statement of financial position.
5. Deferred tax - The municipal entity is required to account for income tax as confirmed with the South African Revenue Services during October 2015. At the time of preparing the budget the information was not available to provide for deferred tax.
6. Long service awards - The main reason for the variance is due to the fact that some of the previously seconded employees have transferred to Centlec resulting in an increase in the number of employees included in the long service awards calculation.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

54. Inter-departmental consumption

Inter-departmental consumption	872 218	647 474
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The inter-departmental consumption is based on units consumed as per the meter records.

55. Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

- **Non-compliance with Municipal Systems Act sec 86 H(2)(1)**
A municipality may pass a by-law establishing a service utility which provides for the appointment of the Board of Directors to manage the service utility. The municipal entity did not fully comply with the provisions of the Municipal Systems Act as the term of the Board of Directors ended April 2016. Thus for the two months of May 2016 and June 2016 the municipal entity did not have a Board of Directors. However a new Board of Directors was appointed with effect from 1 July 2016.
- **Non-compliance with MFMA sec 65(2)(e)**
Money owing by the municipal entity to the value R 84 049 895 was not paid within 30 days of receiving the relevant invoice or statement mainly due to the lack of proper supporting documents and late submission of invoices by the supplier.

Non-compliance with the Companies Act

In terms of section 9 of the Companies Act 71 of 2008 the municipal entity must comply with all relevant provisions of the Act except where the municipal entity has obtained exemptions. This was not complied with in the following aspects:

- The municipal entity did not have the whistle-blowing mechanism during the period under review as required by Section 159 of the Act.
- The municipal entity did not finalise the code of conduct of ethics for the Board of Directors that meets the provisions of Section 214 of the Act.

Non-compliance with King III Code of Governance for South Africa, 2009

The King III Report on Corporate Governance (2009) provides governance principles and best implementation practice guides. The municipal entity did not fully comply with the provisions of the code in the following aspects:

- The Shareholder Compact was not signed by the speaker/representative of the Council.
- The municipal entity did not develop an Environmental Impact Assessment Plan and did not perform any environmental impact assessments.
- The evaluation of the board, its committees and the individual directors was not conducted as required by Par 2.22 of the code.

The Employment Equity Act no. 55 of 1998 Section 3(2) and 20(1)

The municipal entity did not finalise the development and approval of the employment equity plan during the financial year.

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
National Electrification Programme Grant	National Government	-	-	8 843 688	17 472 023	1 107 138	5 057 919	7 154 384	12 996 270	Yes
		-	-	8 843 688	17 472 023	1 107 138	5 057 919	7 154 384	12 996 270	

The purpose of the national electrification programme grant is to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.